

NEWS: EUROPE

Swedish N-plant closure draws fire

By Greg McIvor
in Stockholm

Sweden's minority Social Democratic government yesterday ran into a hail of criticism from industry, trade unions and other political parties after finally agreeing to start decommissioning the country's nuclear power industry.

Nuclear power supplies half Sweden's electricity needs and the decision, in line with a referendum in 1980, will have far-reaching consequences for Sweden's energy-intensive manufacturing industry and the shape of the domestic power sector.

Market concern over the financing of the closure pro-

cess fuelled a 6 basis point rise in yields on long-term bonds, while the krona weakened against leading international currencies.

The government would not confirm details of a deal reached on Sunday night with two small opposition parties, the Centre and the Left party. However, Swedish media reported that one of the country's 12 reactors would be closed before the general election in 1998 and a second during the next mandate period.

Mr Anders Sundström, industry minister, insisted industry would be shielded from electricity price rises and called the accord "very responsible". Domestic consumers are expected to bear



the brunt of price increases. Opposition parties which did not take part in the agreement accused the government of neglecting sound economics in its determination to censor its informal alliance with the Centre.

Nuclear decommissioning has been a flagship policy for the green-inclined Cen-

tre but opponents argue a phase-out will lead to increased imports of fossil fuel power because more environmentally friendly alternatives are incapable of replacing lost nuclear capacity.

The government had been expected to start the phase-out by shutting reactors

owned by Vattenfall, the state power utility. Instead, media reports suggest that two reactors at the Barsebäck plant, owned by Sydkraft, the country's biggest independent energy supplier, are to be shut first.

Barsebäck is close to the city of Malmö and the Danish capital, Copenhagen. Denmark has lobbied for Barsebäck to be closed on safety grounds, and said yes-

terday the closure move "gave cause to rejoice".

Sydkraft said it would strenuously resist any imposed closure. Mr Göran Åstrand, chief executive, said the company would launch a claim for full compensation in the form of replacement power generat-

EUROPEAN NEWS DIGEST

Stand-off in Serb capital

Serbian riot police confronted tens of thousands of anti-government demonstrators in the centre of Belgrade yesterday after a night of clashes in which scores of protesters were injured. Leaders of the opposition coalition Zajedno (Together) called on a vast crowd to join them in a protest march through the city but they were blocked by hundreds of armed riot police.

Mr Vuk Draskovic, head of the Serbian Renewal Movement, urged demonstrators to avoid confrontation. Democratic party officials said the situation after 11 weeks of non-stop protests was deteriorating and they feared President Slobodan Milosevic's government was looking for a pretext to impose emergency rule.

The mandate of the Socialist council which governs Belgrade expires today and opposition leaders feared Mr Milosevic would impose direct central government control over the city rather than reverse the annulment of opposition victories in municipal elections last November which led to the demonstrations. Guy Dimmore, Belgrade

Hopes rise in Italian pay dispute

By Paul Betts in Milan

The Italian government yesterday stepped up its efforts to reform the country's railways and to bring a nine-month pay dispute in the engineering and metalworking industry to an end.

Both issues are important components of government attempts to overhaul the structure of loss-making state enterprises and contain inflation so that Italy can meet the convergence criteria for membership of the European single currency.

There were signs yesterday of a possible breakthrough in the protracted metalworkers' dispute after the government proposed a new compromise contract for the

1.7m blue-collar workers. Although employers were still concerned by the proposed pension provisions, there appeared to be broad agreement on the level of wage increases, which are likely to set the pattern for settlements in other sectors.

Both government and employers have been worried by the inflationary risks of the contract at a time when wages have shown signs of rising faster than inflation in Italy.

The compromise, involving extending the pay award of £200,000 (\$125) a month over 30 months rather than 24, followed all-night talks between the government, unions and employers on Sunday.

The centre-left administration of Mr Romano Prodi, the prime minis-

ter, hopes the remaining obstacles can be ironed out this week.

In contrast, railway workers, who were holding talks yesterday with the transport minister, Mr Claudio Burlando, reacted furiously to latest government plans to restructure the state system and have called a series of strikes later this month.

The railways, which have accumulated net losses of more than £10,000bn (\$6bn) in the past four years, would be split into two companies: one to manage the rail network, the other to run services and maintain and repair the rolling stock. Separate companies would also be set up to run individual train services.

Mr Burlando said the aim was to

create more competition and align the Italian railways with the general liberalisation of rail services in European Union countries. The government is also seeking to reduce costs and improve services. The unions, which regard the proposals as a first step to privatisation, were particularly angry about plans to abolish benefits such as free travel.

The government is also expected to step up the pace of the restructuring and eventual privatisation of Enel, the state electricity utility. A commission has recommended breaking up Enel into an independent transmission company controlling the grid, and various electricity production and distribution companies competing in the market.

Russian media snap at premier's prowess

By John Thornhill
in Moscow

Mr Victor Chernomyrdin, Russia's prime minister, may have welcomed the opportunity to escape his country's woes last weekend to glad-hand foreign leaders and investors at the World Economic Forum in Davos, Switzerland.

Instead, he was sideswiped by the Russian media in an unusual domestic controversy about bears.

While parts of Russia's press praised Mr Chernomyrdin for demonstrating a steady hand and a keen eye on a now notorious bear-hunting trip last month, other newspapers expressed horror that their prime minister could have shot a mother bear and her two cubs.

One Russian news magazine even likened the shooting of the cub to "common murder".

Questioned about the incident in a Russian television interview in Davos, Mr Chernomyrdin confessed his love of bear hunting and added that he could not understand what all the fuss was about.

He claimed he had a proper hunting licence and claimed that all the bears he shot were adults.

"I would like the journalists who wrote this to have a face-to-face encounter with those cubs," he said. "I would enjoy watching that. I would have liked to see their reaction."

The controversy was ignited a week ago by Mr Alexander Minkin, a rare free spirit in the ranks of Russia's increasingly conformist journalists.

In a front-page article in the Novaya Gazeta newspaper, Mr Minkin lampooned Mr Chernomyrdin's hunting expedition, parodying the semi-official press for glorifying their leaders' physical prowess.

"Accordions players, cooks, conductors of military orchestras - we are glad that our leaders have such abilities, although this has no relationship to the management of the state," Mr Minkin wrote in typically sardonic style.

The newspaper even reproduced a famous painting by Ivan Shishkin of bears frolicking in the woods, and drove home its point by blotting out the cubs.

Quite why Mr Chernomyrdin's hunting trip should have aroused such controversy is not clear. Despite a love of pets, Russians are not renowned for their defence of animal rights, even though the bear is one of the nation's symbols.

Moreover, Mr Chernomyrdin's love of hunting is nothing new. Indeed, the prime minister has concluded some of his most successful deals while popping off wildlife.

It was at a hunting lodge outside Moscow that Mr Chernomyrdin had a famous meeting of minds with Mr Michel Camdessus, the cerebral head of the International Monetary Fund. That encounter led to a big injection of financial support.

Mr Chernomyrdin is trying to shrug off the controversy as he heads off tomorrow to the US for in-depth meetings with Vice President Al Gore.

It is a fair bet, though, that bear hunting will not form part of their programme.

Bomb wrecks minister's car

A bomb last night ripped apart the official car of Mr Andrei Vavilov, Russia's deputy finance minister, in what appeared to be the first criminal attack aimed directly at a senior government member. No injuries were reported in the explosion which took place close to the finance ministry.

Mr Vavilov, who leads a high-profile social life, has developed close ties with various banking and business interests. His official brief touches on several controversial areas such as tax collection and government financing. Dozens of business leaders have died in contract killings in recent years. John Thornhill, Moscow

Blüm pension plan backed

Mr Norbert Blüm, Germany's labour and social affairs minister, has won important backing from within the governing Christian Democratic Union for his plans to restructure the country's pay-as-you-go pension scheme. A group of CDU pension specialists yesterday came out in favour of his proposal to reduce pensions to 64 per cent of average earnings by 2030 from around 70 per cent at present, and to set up a "family fund", financed by indirect taxes, to carry some of the burdens at present put on state pension insurers.

Marking an advance for Mr Blüm in the power struggle over tax and pension reform that is dividing Chancellor Helmut Kohl's coalition, the CDU pension experts rejected by 20-4, with four abstentions, proposals put forward by a government commission on tax reform, chaired by Mr Theo Waigel, the finance minister, for increased taxes on pensioners with incomes above average.

Mr Blüm's plan will be discussed by the CDU leadership in Bonn tomorrow. Meanwhile, the Free Democrat party, junior member in the coalition, called yesterday for a new joint commission of the government parties to harmonise the proposals.

Peter Norman, Bonn

Madrid traffic fines debacle

Madrid's city council yesterday reversed plans for privatising traffic fines and said it was cancelling a contract with the US computer services group EDS. Mr Pedro Bujidos, the city's finance chief, said the severance terms, including a claim for damages, had been referred to the council of state, the top consultative body.

The turnaround, a severe embarrassment to the city's conservative administration, follows allegations of irregularities at a local subcontractor hired by EDS to serve notices of fines. The subcontractor, Servicio, is accused of claiming payment for jobs which it did not carry out. EDS, which began processing fines in the capital last September, broke off with Servicio the following month and informed the authorities. But its own deal was suspended in December pending an investigation.

The US company, already deep in controversy over government contracts in the UK, is believed to have invested several million dollars in computer and office facilities for the project. David White, Madrid

French car sales tumble

French car sales in January were a third lower than in the same month last year, reflecting the phasing out of government financial incentives to encourage the buying of new cars. There were 122,552 new cars registered during the month, against 184,541 in January 1996, according to figures from the industry association. French cars represented 53.4 per cent of the market.

The decline was also partly blamed on an exceptionally strong performance in January last year, reflecting the recovery after strikes at the end of 1995. Eliminating this effect, the reduction for January was estimated at 25 per cent.

Andrew Jack, Paris

Malta ship yard taken over

Malta's new Labour government has taken over Malta Drydocks, the island's ailing commercial ship repair yard. Legislation ending 22 years of self-management by the 3,000-strong workforce was rushed through parliament over the weekend with the full backing of the opposition Nationalist party. A nine-man council has taken overall control from a workers' elected council and will report directly to the government.

Mr Alfred Sant, the prime minister who came to power at last October's general election, has made clear that losses at the former British naval yard, which totalled £1m (\$34m) last year, were unacceptable. He discussed the changes with dockyard employees before they were approved by parliament. Godfrey Grima, Valletta

ECONOMIC WATCH

Spanish price rises slow

Spanish factory-gate prices edged up a month-on-month 0.1 per cent in December to show a 1.8 per cent rise over the last 12 months, the lowest annual increase since 1992.

However, the figures reinforced worries about the impact of energy prices, which climbed 0.4 per cent from November and 7.1 per cent since the end of 1996. The centre-right government is increasingly concerned that higher crude oil prices, combined with the recent strength of the dollar, in which oil

imports are denominated, could impede its efforts to bring inflation into line with the qualifying criteria for the European single currency.

The rise in consumer prices last year was reduced from 4.3 per cent to 3.2 per cent, the lowest level for more than a quarter of a century, and the government is aiming at a 2.6 year-on-year rate at the end of this year. However, recent heavy rains and frosts threaten to push up fresh food prices in the coming months.

■ European Union consumer prices rose a provisional 0.2 per cent in December from a month earlier and rose 2.2 per cent year on year, the Eurostat statistical office said.

Socialists defy pressure for Bulgarian poll

By Theodore Troev in Sofia

Bulgaria's governing Socialist party yesterday ignored weeks of demonstrations by the public demanding early elections and approved a new cabinet.

About half the ministers, including the finance minister, Mr Dimitar Kostov, were in the previous administration. The new faces represent a retreat from the Socialists' initial hopes of forming a broad cabinet of experts who would win wide acceptance.

Protests and public transport strikes paralysed the country yesterday and are expected to be repeated today.

The opposition, led by the Union of Democratic Forces, has rejected all offers by the Socialists to join a coalition. Its leaders fear that any compromise with the BSP would shatter their credibility with demonstrators.

The Socialists insist that the only way out of the deepening financial crisis is to form a government that would work under the current parliament to introduce as quickly as possible an IMF-backed currency board regime designed to restore



Striking Bulgarian public transport workers shout slogans as they demonstrate on the streets of the capital, Sofia, yesterday

Belgian tax raid on minister's aides

By Neil Buckley in Brussels

Police yesterday raided the Belgian finance ministry, including the offices of aides to the finance minister, Mr Philippe Maystadt, as part of an inquiry into allegations of tax fraud by Belgian banks.

The judicial review was simultaneously interviewing staff of Kredietbank, the

country's second biggest bank, but refused to say whether the two cases were linked.

Kredietbank has been under investigation in recent weeks for alleged tax evasion. It independently runs sister bank, Kredietbank Luxembourg - also owned by the Antwerp-based company Almanji - has been the subject of a probe by Belgian tax authorities since last year.

Belgian media have published documents suggesting that Mr Maystadt's aides intervened in 1988 to reduce a penalty paid by Krediet-

bank in connection with tax evasion on bourse operations in the late 1980s.

The fine paid by Kredietbank was reduced from 50 per cent of the BFR155.2m (£4.6m) involved - as originally agreed with the tax authorities - to 40 per cent following an order reported to have emanated from the finance ministry.

The raid is another blow to the image of the Belgian government, already rattled by recent scandals.

Mr Jean-Luc Dehaene, the prime minister, said yesterday that he had no plans to reshuffle his centre-left gov-

ernment after a new corruption controversy erupted last week. There was "not a single reason" to expel the francophone Socialist party from the four-party coalition government - as opposition parties have demanded - in spite of the arrest of two former senior Socialist officials.

The two, Mr Merry Hermans and Mr Francois Pirot, were charged with corruption as the result of a long-running probe into contributions to party funds by Dassault, the French aviation group. Dassault and the officials have denied any wrongdoing.

Far right candidate tops first round in French local election

By David Buchan in Paris

The far-right National Front stands a good chance of capturing a fourth town next weekend after its candidate topped the poll in Sunday's first-round municipal election in Vitrolles, near Marseille - 10 percentage points ahead of the socialist mayor.

Yesterday the candidate of the ruling centre-right majority, who came third with 16.3 per cent, pulled out of the election, after party

leaders, including Prime Minister Alain Juppé, who heads the RPR Gaullists, urged him and his supporters to follow "republican values" in the run-off on February 9 effectively to vote socialist to prevent the NF candidate, Mrs Catherine Megret, from winning.

France's mainstream left and right-wing parties are increasingly supporting in the second round whichever of their respective candidates does best in the first round against the NF. Last

November in Dreux, near Paris, the withdrawal of the socialist candidate after the first round helped the centre-right beat off the NF.

The presence of the NF in many of France's 22 regional councils is also destabilising local government. Last month, the central government had to take over budgetary responsibility for the Paris region after the centre-right RPR and UDP coalition lost its majority because it refused to do a deal with the

socialist candidate after the first round.

Some of the 16.3 per cent won by the RPR-UDP candidate will undoubtedly go to the NF next Sunday, but some will probably evaporate into abstentions. In 1985, the NF won the southern towns of Toulon, Orange and Marguane.

Neither the ruling RPR-UDP coalition nor the

**End-off in
capital****Boost for Italy's bid to be in first Emu wave**

By Lionel Barber in Brussels

Italy's bid to qualify for economic and monetary union (Emu) received a boost yesterday after the EU's statistical watchdog approved budget measures trimming the Italian public deficit by 0.28 per cent in 1997.

However, Eurostat delayed passing judgment on Italy's Tax for Europe, the government's one-off surcharge on income tax bills. The Tax-for-Europe, worth around 0.5 per cent of GDP, is viewed as critical for Italy's uphill bid to be a founder member of Emu.

The accounting guidelines published by Eurostat yesterday are

intended to create a level playing field covering the treatment of economic statistics ahead of Emu's planned launch on January 1, 1999.

The goal is to avoid charges of "creative accounting" which erupted last year when Eurostat approved a one-off FFr37.5bn (£6.75bn) payment from France Telecom to the Park government.

The payment covered pensions liabilities amounting to 0.5 per cent of French gross domestic product.

During a one-hour news conference at the European Commission yesterday, two senior Eurostat officials defended their agency's

independent status and explained at length the treatment of several key issues.

Capitalised interest on deposits. Eurostat approved Italy's decision to record interest on Italian postal bonds worth £5bn (£3.1m) (0.26 per cent of GDP). The Commission has already factored in the sum into its forecast of 3.3 per cent for Italy's budget deficit in 1997, just above the Maastricht target of 3 per cent.

Gold sales. Eurostat sanctioned the Belgian government's use of profits from gold sales to reduce its huge stock of official debt, double the Maastricht target. However, it ruled that such

sales could not be used as a device to reduce deficits.

Financial leasing. Receipts from the sale of property or land can be used to cut the annual deficit. Buy-back clauses are contingent liabilities which are not recorded in the government debt. Depending on the treatment, the UK could book an extra £100m (£160m) (0.13 per cent of GDP).

Fungible bonds. France won approval for these bonds which are issued in tranches without changes in the date of payment of the coupons. The French authorities have already booked the item - worth 0.18 per cent of GDP in the 1996 accounts.

- Swaps on interest rates and currency swaps. Finland and Austria are affected. Eurostat has ruled that only net payments of interest between the two parties should be recorded.

- Zero coupon bonds. After a majority vote by the relevant Eurostat committee, the agency will treat the difference between the issue price and the redemption price as interest, to be recorded as interest paid at the maturity of the bond.

In accounting terms, the controversial aspect of Italy's Eurotax is its provision for a future partial refund.

Eurostat must also decide how

to treat the debt of Italy's state-owned national railways, private sector financing of public infrastructure, and state guarantees, a delicate issue in Germany.

Eurostat's rulings are only the first hurdle for countries seeking to join monetary union.

They must also convince the European Monetary Institute and the European Commission that they have met the Maastricht targets for inflation, debt, deficits, and exchange rate stability in a sustainable manner. EU leaders will make the final decision in spring 1998 on which countries have qualified for Emu.

Eurostat must also decide how

Banks 'slow in preparing for Emu'

By George Graham,
Banking Correspondent

Only one bank in four has yet begun to change its computer systems to handle monetary union, according to a survey of European financial institutions by Gemini Consulting, the management consultancy arm of the Cap Gemini computer services group.

Although 85 per cent of the bankers surveyed by Gemini believed the single currency would be introduced on time, 91 per cent said they had still received no clear statement from their software suppliers about what needed to be done to make their programs handle the euro.

Six out of ten believed that the UK banking industry would still be

Eleven per cent of banks had not even started preparations

unprepared for Emu by January 1, 1999, when Emu is scheduled to begin.

Mr Jo Owen, vice-president of Gemini Consulting, said the survey contained a stark message about the preparations for Emu.

"Although the current debate is sharply focused on the macroeconomic and political aspects of the euro, the underlying reality is that the banks and other financial institutions may not be ready to handle the euro," he said.

Besides the 25 per cent who said they had started work on systems changes, another 26 per cent said their assessment of the impact of Emu was complete.

But 48 per cent said they were still "getting organised" while 11 per cent admitted they had not even started.

Right rate for euro is fraught with difficulty

Make the wrong decision and the ensuing currency speculation could jeopardise the chances of a smooth start to Emu, writes Andrew Fisher

**Preparing for Emu**

As preparations for European monetary union intensify, attention is turning to an issue that makes bankers recall past waves of currency speculation with a shudder - how to fix the rates for converting currencies into the euro.

Should the conversion rate be based on the final working day of 1998, as an independent Brussels-based think tank proposes? Or should it be based on an average of the market rates up to Emu's scheduled start in 1999, as many economists believe?

If the wrong decision is taken, the ensuing currency speculation could jeopardise the chances of a smooth start to Emu.

The Centre for European Policy Studies (CEPS), chaired by Mr Helmut Schlesinger, former Bundesbank president, has just presented its latest report, entitled *The Passage to the Euro*.

It favours using market rates on the last business day of 1998 as the basis for conversion, but German

bankers in Frankfurt believe this would be an invitation to speculators.

They especially dislike the suggestion that governments and central banks of chosen Emu member countries should set bilateral target rates to be reached at the end of 1998 (say, for the D-Mark against the French franc) and commit themselves to defending these, if necessary by intervening if rates moved 0.5 per cent above or below the target.

This would be like letting the lions turn on the lion tamer," says Mr Werner Becker, senior economist at Deutsche Bank Research, recalling previous speculation against European currencies whose exchange rates were regarded as unsustainable.

A member of the CEPS working party which worked on the report, he states in a minority opinion that it would be better to take average rates over two years up to Emu's start.

This would avoid volatility and "the risk of arriving at a conversion rate that would not be in line with fundamentals".

He and others also think it that the method of calculating the conversion rate be made known in advance,

possibly just after Emu members are named in the spring of next year. Otherwise, says Mr Martin Hüfner, chief economist of Bayerische Vereinsbank, "we could be sitting on a time bomb".

The CEPS argues that the use of average market rates could create considerable legal and practical difficulties.

If governments decided its conversion rate against the French franc should thus be

adjusted by 1 per cent

against the market rate, German savers would get 1 per cent fewer euros and French savers more.

"The loss [to Germans] could thus easily amount to DM30bn (£18bn]," it says. Hence its proposal that central banks should agree in advance the conversion rates they want to achieve.

Mr Daniel Gros, the senior CEPS research fellow who presented the report in Frankfurt, said that he was surprised at the German

market rates and the final conversion rates would create losses or profits for citizens of some member states, which would contradict assumptions made to the public," it says.

The Maastricht treaty lays down that fixing of final conversion rates should not affect the external value of the Ecu, the European basket of currencies.

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NEWS: INTERNATIONAL

Zaire's civil war gathers pace

Country is poised to become Africa's battleground, says Michela Wrong

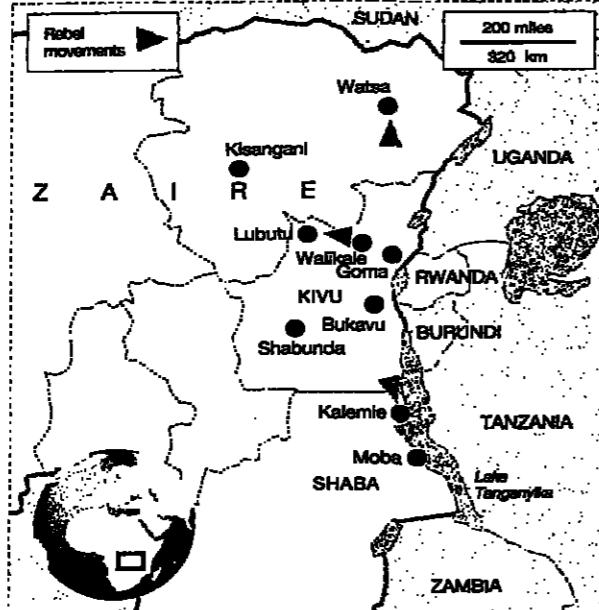
ZAIRE'S civil war seemed doomed to rapid escalation yesterday when the defence ministry said that three African allies - Morocco, Togo and Chad - had offered to send troops to counter a rebel attack in the east of the country.

The announcement, which coincided with the start of a three-day visit by Zaire's ailing President Mobutu Sese Seko to the Moroccan capital, Rabat, came as the rebels extended their control south into the copper-rich Shaba province. They had seized the port of Kalemie on the shores of Lake Tanganyika and were advancing on Moba.

A ministry official said Morocco, Togo and Chad were all prepared to send troops and equipment to halt the advance of the Tutsi-dominated Alliance of Democratic Forces, and Egypt had offered equipment for Zaire's infantry. "The planes for this operation have already been chartered," he said. However, no date was given for their arrival.

He added that a recruitment campaign, aimed at forming 13 commando brigades of 2,000 men each, had been launched and China and Israel, which have a history of military co-operation with Zaire, would train the new recruits.

The announcement of foreign intervention conjures up memories of the 1970s, when African and western forces repeatedly leapt to



Zaire's defence after rebel invasions of Shaba placed its territorial integrity in question.

Coinciding as it does with growing signs that Zaire's neighbours to the east - Uganda, Rwanda and Burundi - are crossing the border to help the rebels, it raises the frightening prospect of African troops fighting each other on Zairean soil.

By calling on his allies for help, Mr Mobutu, who returns to Kinshasa on Saturday, is acknowledging that the presence of 300 foreign mercenaries has not been enough to turn the tide of

serving the copper belt, still represents a serious loss. It is the birthplace of Mr Laurent Kabila, the rebel leader, who is clearly hoping to fan strong existing secessionist feelings in Shaba province, which declared autonomy from Kinshasa a few years ago.

The rebels were reported to be advancing simultaneously in the far north and to the east of Kisangani. Watsa, south of the border with Sudan, was said to have fallen and guerrilla forces were surrounding Lubutu.

The unchecked string of rebel successes has lent credence to Zairean claims that Uganda and Rwanda have infiltrated the area to hasten the downfall of a regime they despise.

While both countries reject the accusations, saying Zaire is looking for scapegoats for its own abysmal military performance, western governments alarmed at the conflict's potential for regional destabilisation are growing increasingly uneasy.

Belgium said last week it was receiving more and more reports that Rwandan troops were in Kivu, a development it described as "unacceptable". A French spokesman said that while Paris lacked concrete proof, it was "worried" by indications of units from neighbouring countries fighting alongside the rebels.

Zaire has also claimed that several hundred Eritrean, Ethiopian and Somalian

mercenaries are helping the rebels train their fighters.

Many of these accusations are too wild to be credible. But analysts say that having provided the superpowers with a proxy battlefield during the cold war, Zaire is now in danger of playing host to a new, inter-African tussle, with France and the US as the western powers watching from the wings.

Rwanda, Uganda, Ethiopia and Eritrea are all in the hands of fairly young leaders hardened by years fighting in the bush. They enjoy strong backing from Washington, and are anxious to shore up their governments against the threat of Islamic fundamentalism from Sudan.

Intelligent, flexible and reform-minded, these men are united in their hostility to the Khartoum regime. No respecters of colonial borders themselves, they have little sympathy for a generation of African autocrats such as Mr Mobutu who have, with France's blessing, clung on since independence.

In danger of being forgotten in this volatile scenario are the hundreds of thousands of Rwandan refugees who fled deeper into Zaire instead of returning home last November and who are now trapped by the fighting.

The UN High Commissioner for Refugees said malnutrition and cholera were rising among the estimated 200,000 people at Tingi-Tingi, east of Lubutu, Shabunda and Amizi. She said countries such as the US, with sophisticated military technology, could not be unaware of the extent of the crisis, and accused them of attempting to play down the crisis.

She warned Mr Kofi Annan, new secretary general of the United Nations, that the credibility of the UN was at stake unless it took action to deal with the crisis.

At present, only humanitarian aid agencies were taking the situation seriously.

"I am not dramatising," Ms Bonino said. "This is a scandal and unacceptable."

Asked if she believed the US was deliberately trying to cover up the crisis, Ms Bonino said she had no evidence to suggest this. But if the US said it was unaware of the number of refugees, "perhaps they simply have not looked".

INTERNATIONAL NEWS DIGEST

Israel to ease currency curbs

The Bank of Israel yesterday unveiled a package of foreign currency liberalisation measures which will allow Israelis to invest freely in overseas securities markets, have fewer restrictions on holding foreign currencies and obtain it without showing travel documents.

Under current legislation, Israelis can only invest in securities traded on officially approved exchanges. They cannot invest in certain foreign mutual funds, and can only obtain foreign currency for travel abroad on presentation of a valid travel document.

The new measures will give Israelis the choice to invest in all foreign publicly traded securities and initial public offerings - provided both are quoted on a widely available network. On the Tel Aviv stock exchange the MAOF index closed up 3.21 per cent at a two-year high of 265.63.

Judy Dempsey, Jerusalem

Lebanon in budget vote

The Lebanese parliament yesterday was set to vote on a 1997 budget which slashes the country's deficit to 36 per cent of total spending, from a recorded shortfall of 51 per cent last year. The deficit has consistently exceeded its targets - the 1996

budget was forecast at only 33 per cent - and parliamentary deputies debating the budget draft have questioned the government's ability to maintain revenues and expenditures on target this year. The 1997 budget

forecasts revenues of LE4,100bn (\$2.65bn) compared to actual revenues of LE3,883bn in 1996. (The 1996 budget had forecast revenues of LE4,025bn). Expenditures are expected to reach LE8,433bn, slightly below last year's forecast of LE8,448bn.

Roula Khalaf, London

China arms sale discounted

A South African company said reports that it was negotiating a R1bn (\$220m) arms sale to China were overblown, but disclosed that Beijing had sent a delegation to the country last year.

Mr Gordon Blackhead, marketing director for Reutech Radar Systems, said yesterday: "Reutech was approached by China for preliminary discussions and a delegation was received in May 1996 which indicated an interest in radar products... We've had nothing further since."

Reutech said China was interested in a highly mobile two-dimensional radar system which it developed in co-operation with the government-controlled Armscor agency. But Mr Blackhead said that after his company was asked to provide a budgetary quote, "no technology transfer was sought or offered".

South Africa's National Conventional Arms Control Committee - which vets all South African arms sales to foreign countries - said yesterday that it had not received an application on a possible deal with China from Reutech.

Reuter, Johannesburg

NEWS: WORLD TRADE

By Judy Dempsey and Avi Machlis in Jerusalem

Israeli and Palestinian leaders confirmed yesterday they would meet on Thursday to try to speed implementation of overdue issues, including the release of Palestinian political prisoners, the establishment of a safe Gaza-West Bank corridor and the opening of an airport in Gaza.

Diplomats said the meeting was crucial for maintaining momentum

in the peace process following the withdrawal of Israeli troops from Hebron last month which left the Palestinians with 80 per cent control of the West Bank city.

The decision to meet at the Erez border crossing between Israel and Gaza follows weekend talks in Davos, Switzerland, between Mr Benjamin Netanyahu, the Israeli prime minister, and Mr Yassir Arafat, president of the Palestinian Authority.

Mr Netanyahu also said at Davos

he would try to curb the number of foreign workers entering Israel, who officially total 104,000 and have taken many of the jobs originally held by Palestinians.

The Palestinians have not been allowed to work in Israel until recently because of the closures imposed on the West Bank and Gaza early last year by the Israeli government.

The record of the Palestinian Authority's human rights in its self-ruled areas came under closer

scrutiny yesterday. Officials confirmed Mr Youssef Ismail al-Baba, 32, had died in a local hospital after being tortured by Palestinian security forces in the West Bank city of Nablus at the weekend.

Mr Freiha Abu Medtein, the Palestinian justice minister, said that Mr al-Baba, a Nablus resident, died of injuries sustained after being tortured by his Palestinian interrogators. He had been detained without a warrant since January.

The justice minister condemned

the incident and said that an investigation had been launched.

Palestinian human rights organisations said torture had become commonplace in Palestinian prisons.

The Palestinian Society for the Protection of Human Rights said that nine people had been tortured to death since the Palestinian Authority began assuming control of parts of the West Bank and Gaza Strip in 1994, under peace deals between the Palestine Liberation Organisation and Israel.

Study predicts integrated 'hub in the home' systems by next century

TV revolution 'will fuel sales'

By Alice Rawsthorn

World Consumer Electronics

Forecast world consumer electronics market, by region, in value

	1996	1997	1998	1999	2000
Western Europe	40,163	42,779	45,267	48,022	50,846
North America	31,685	32,920	32,676	33,219	33,773
Eastern Europe	7,761	8,034	8,247	8,468	8,689
South America	4,551	4,650	5,194	5,466	5,872
Australia	2,126	2,152	2,185	2,215	2,246
Middle East	1,934	1,970	1,996	1,999	1,994
Africa	1,255	1,333	1,408	1,449	1,490
World Total	127,652	132,514	137,340	142,755	146,996

Source: Euromonitor

in the early 1990s.

Euromonitor estimates that global consumer electronics sales rose from \$117.13bn in 1992 to \$127.65bn in 1996.

This was an increase of 9 per cent over five years, which means that the market contracted in real terms. It anticipates a modest

improvement in trading conditions during the late 1990s with sales showing average annual growth of 3.6 per cent (at 1996 prices) until the year 2000, when the global market should be worth \$146.87bn.

This growth will be fuelled by the launch of new digital television services and associated products such as digital video cassette recorders and satellite equipment, as well as new home entertainment and digital video disc systems.

However, Euromonitor warns of continued pressure on retail prices, which was one of the chief contributors to the industry's difficulties in the early 1990s.

Sales should be concentrated in five countries - the US, Japan, Germany, China and the UK - although their market share is expected to fall from last year's 62 per cent to 53 per cent by 2000, as growth accelerates in Latin America and elsewhere in Asia.

By contrast, the consumer electronics industry is still relatively fragmented.

Only two companies command more than 10 per cent of the global market: Sony and Matsushita of Japan

with 17 per cent and 13 per cent respectively. Philips of the Netherlands has a 9 per cent share, followed by France's Thomson and Japan's Sharp, both with 6 per cent.

These companies are already developing new products such as flat television screens, which will soon go on sale, albeit at extremely high prices.

Other innovations include wind-up televisions with wide screens which are capable of displaying different windows for information or entertainment, along with advanced televisions that can perform the functions of personal computers, games consoles and home theatre systems.

*The World Market For Consumer Electronics, available for £4,950 from Euromonitor, 60-61 Britton Street, London EC1M 5NA. Tel: 0171-251 1105.

Optimism on IT tariff deal

European Union officials said yesterday they were optimistic that Malaysia and some other countries would shortly join a deal to scrap information technology tariffs by 2000, bringing trade coverage to the required 90 per cent for entry into force in April.

The 29 existing participants - including the US, EU, Japan and Canada - account for nearly 84 per cent of world trade in information technology products.

In talks at the World Trade Organisation that ended on Friday, Malaysia, Thailand, India and the Czech Republic apparently agreed the initial list of products for which tariffs will be eliminated. But differences remained on their demands for an extension beyond 2000 for some products. Negotiations nevertheless came "within a whisker" of agreement with Malaysia, according to EU officials. Talks with all four countries are planned to continue until the March 1 deadline for submission of tariff schedules.

Frances Williams, Geneva

Rolls-Royce wins SA order

South African Airways has confirmed its faith in Rolls-Royce of the UK by ordering its RB211 engine to power two Boeing 747-400s. The order, valued at \$80m, came after Rolls-Royce said some versions of the RB211 would have to be modified after suffering turbine blade failures. Mr Mike Myburgh, SAA's chief executive, said the new aircraft, due to be delivered next year, would be used on flights between South Africa and the US.

Michael Skapinker, Aerospace Correspondent, London

EU, US to resume talks

EU and US negotiators will meet in two weeks in Brussels to resume negotiations on a package of mutual recognition agreements after missing the January 31 deadline set by US President Bill Clinton and Mr Jacques Santer, president of the European Commission. In December, the US and EU agreed that products tested and accepted on one side of the Atlantic as meeting pre-agreed standards could be cleared for distribution on the other.

This is expected to save the sectors under discussion - pharmaceuticals, medical devices, telecoms and information products and others - an estimated \$300m.

Nancy Dunn, Washington

Ecuador call for bids to build oil pipeline

By Justine Newson in Quito

The Ecuadorian government has called for private bids to build a second 514km oil pipeline under a 20-year operating concession.

The existing 500km state pipeline, built in 1972 and already expanded twice, is at the limit of its transport capacity.

By pumping up to 50,000 barrels a day through Colombia and using anti-friction chemicals, Ecuador can currently produce a maximum of around 380,000 b/d.

The new pipeline is an incentive for companies at the exploration stage, according to Mr Alvaro Carvajal, commercial manager of Techint, an Argentinian company in a consortium interested in bidding for the \$400m project.

Construction costs will be reduced by using the same route as the SOTE, resulting in a lower transport tariff.

The tariff will be the deciding basis for awarding the contract and has two components, a minimum price payable whether or not crude is transported, based on the latest project.

Past plans to increase transport capacity have not come to fruition and there is residual opposition to the latest project.

The new pipeline, called SOCO, is exclusively for heavy crude.

It will run from Sacha in north-eastern Ecuador to

Baloa on the north-western Pacific coast.

The existing pipeline, SOTE, will be able to maximise transport of lighter crude, currently mixed with heavier crude, targeting different markets.

The new route starts in the heart of Ecuador's oil-producing region, where state company Petro-Ecuador's fields are located.

It passes through a zone containing most of the blocks awarded to the private sector in the country's seventh and eighth rounds in 1985-86, before meeting the SOTE pipeline at Baeza.

TUESDAY FEBRUARY

INTERNATIONAL NEWS DIGEST

Israel to ease
currency curb

Switzerland's central bank has decided to pursue a policy of currency liberalisation more closely aligned with market forces. In a statement released yesterday, the Swiss National Bank said that it would no longer impose capital controls on foreign exchange transactions. It also said that it would no longer require foreign exchange dealers to hold a minimum amount of Swiss francs as a reserve against foreign currencies. The new policy will come into effect on January 1, 1990.

on in budget vote

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long future
for fossil fuels

CREDIT
SUISSE

GROUP

FINANCIAL MUSCLE

BUILD
UP
YOUR

CREDIT SUISSE is what and where you need your bank to be. Experienced, astute, global. A leading player backed by over a century of international experience and a strong capital base. We're a trusted partner in whatever market or country you operate. We get projects off the ground and make plans reality. Helping to get you to the top.

Our new structure gives you access to a new world of financial services. CREDIT SUISSE FIRST BOSTON gives you the strength and creativity of a leader in corporate and investment banking. CREDIT SUISSE ASSET MANAGEMENT combines power and judgement to manage significant funds around the world. CREDIT SUISSE PRIVATE BANKING sets the standard for international private banking and investment management. CREDIT SUISSE is the leading Swiss domestic bank.

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SUISSE | FIRST
BOSTON

CREDIT
SUISSE | ASSET
MANAGEMENT

CREDIT
SUISSE | PRIVATE
BANKING

CREDIT
SUISSE

Tang touches a raw nerve in Singapore

By James Kyne in Singapore

Just over a month ago, few in Singapore had heard of Mr Tang Liang Hong, a rotund and bespectacled lawyer in his 60s who was due to run for the opposition Workers' party in the island's parliamentary elections. Today there can be few who have not heard of him.

He has become the focus of what is probably the most comprehensive court action brought by the government against an opposition politician since Singapore's independence in 1965.

Even in this legalistic country, where the government has often won court battles against political opponents, the sheer number of suits piling up against Mr Tang has ensured much media coverage and considerable private debate. The legal actions are also laying bare some of the issues which lie at the heart of Singaporean society and the identity of its government.

Mr Tang is being sued by 11 members of the ruling People's Action party (PAP), including Mr Goh Chok Tong, the prime minister. Mr Lee Kuan Yew, the senior minister and founding father of modern Singapore, Mr Lee Hsien Loong, a deputy prime minister, and other members of the cabinet.

The main accusation against him is that he defamed several among the PAP leaders by saying that they lied when they called him an anti-Christian, Chinese chauvinist



Tang Liang Hong pictured surrounded by the press during last month's Singapore election campaign

Reporters

during the election campaign.

Following the election, in which Mr Tang and co-campaigners were defeated, he fled the island.

He travelled to Malaysia, then to Hong Kong and London, from where he has kept up a defiance in the Singapore media by talking to journalists on his mobile phone.

His flight abroad angered Mr Lee Kuan Yew, who criticised him for attempting to portray Singapore as a "terrorist state".

When his wife, Mrs Teo Siew Har, tried to leave the country last month, authorities cancelled her travel documents. They explained

she should not be allowed to leave until the Inland Revenue Authority completes a tax investigation into the couple's finances.

Meanwhile, a court has served Mr Tang with an injunction ordering that if he sells off his property, he must set aside \$11.2m (US\$7.9m) to meet liabilities which could arise from the suits against him. Mr Tang, who plans to sue many of the officials suing him, says that his total assets are worth much less than \$11.2m.

Regardless of how Singapore's courts find Mr Tang, questions are being raised as to whether the

country's legal system makes it too easy to sue and whether the government is concerned that the exhaustive nature of its actions against Mr Tang could prove unpopular. The opposition was crushed in the January election, and now controls only three seats in the 83-member parliament.

Mr Goh told reporters last week "there may be some public sympathy" for Mr Tang but explained that he had no choice but to sue him to protect his reputation.

The prime minister made clear in the election campaign there are wider interests at stake. He main-

tains Mr Tang, 61, is a dangerous man who sought to exploit "fault-lines" in Singapore's multi-racial society for political gain. Race riots in the 1950s and 1960s between the ethnic Chinese majority and minority Indians and Malays have made the government vigilant for any sign of racial bigotry.

Foreign relations could also suffer from any surge of Chinese chauvinism, officials said. As China grows more powerful over the next 20 years, the temptation among Singapore's ethnic Chinese electorate to orientate the country increasingly toward China will be strong. This course would run the risk of alienating Singapore's neighbours and closest allies in the Association of South East Asian Nations (ASEAN), officials said.

"We are not a Chinese nation," said Mr S. Jayakumar, the foreign minister, in an interview. "We should bear in mind that our destiny is with south-east Asia and ASEAN. That is a key point."

Mr Tang, talking on his mobile phone from London, said the government's arguments were all logical save for a central flaw - that he was not a Chinese chauvinist.

"This is my defence. I am not a chauvinist of any kind," he said. "Look at my life. I spent about 10 years as a dancer and choreographer in the 1950s and 1960s. My favourites were Indian and Malay dances. I speak Malay fluently. I studied English at university."

Tokyo puts a brave face on land sale

By Jonathan Ansell
In Tokyo

The most important auction of prime land in central Tokyo in recent years lived up to industry expectations on pricing yesterday - but failed to provide evidence that the slump in Japan's property market has bottomed out.

Japan's largest advertising agency, Dentsu, and two consortia led by blue-chip property developer Mitsui Fudosan and Nippon Television Network Corp successfully bid Y1.372.3bn (\$10bn) for three blocks totalling 5.25 hectares in Shiodome area near the Ginza shopping district.

The site, an old rail freight station, formerly belonged to the government's now defunct Japanese National Railways (JNR), which was broken up in 1987. It is to be redeveloped for office and retail space, cultural facilities and residential units.

The auction had attracted close scrutiny as a benchmark of land valuations. It was held by JNR Settlement, the government-appointed agency responsible for disposing of the JNR group's accumulated debt of Y28,000bn (\$330bn).

JNR Settlement put a brave face on the result, even though the site was valued at Y4,000bn at its peak in 1990.

"We hope the disposal of land will have a good effect on real estate investment and economic activity," JNR Settlement said after the auction.

After years when transactions were so few that values had to be imputed, the presence of 11 bidders and a sale at almost any price might be considered cause for celebration, but analysts were less optimistic.

The bid price was in line with their estimates, valuing the approximately 15 hectares to be sold in total at about Y800bn, and represents an operating yield of 6.5 per cent, analysts said.

But they pointed out that the absolute cost of the land worked out at Y7.07m per square metre, barely changed from the estimate for similar land made by the government's National Land Agency in January 1996.

Significantly, to ensure a sale, zoning regulations had been relaxed to allow a coverage ratio - the amount of construction permitted for a given area of land - two to three times greater than for existing properties, in effect halving the acquisition cost for developers.

Chinese city driven by Pearl River vision

Mr Gao Siren, Communist party chief of Guangzhou, gestures towards the murky waters of the Pearl River, and says he aims to transform the area so that it becomes "more beautiful" than the Rhine or the Seine.

It takes a leap of faith to accept Mr Gao's vision splendid of the Pearl River waterfront with its decaying godowns (warehouses) and mildewed tenements. But behind his remarks lies a story of intense competition among China's cities to be Number One.

Guangzhou (population 6.4m) was the first city to open for business after Mr Deng Xiaoping, China's veteran leader, launched his campaign of "reform and opening" in 1978, becoming virtually a "city-state" and overshadowing the commercial hubs of Shanghai and Tianjin to the north.

As capital of Guangdong, China's most dynamic province during the early reform period, Guangzhou reaped the rewards of investment from neighbouring Hong Kong. Its economic development zones achieved astonishing rates of growth, but increasing competition for foreign investment from such places as Shanghai, Tianjin and Dalian has brought Guangzhou back to the pack.

Not that its leadership can complain about continuing



Guangzhou: open for business

Reporters

Guangzhou is vying with rivals for foreign investment, writes Tony Walker

ment by making efficient use of available resources, but we also intend drastically to improve the environment," he says.

Among Mr Gao's visions is a promenade with shops and walkways which would run for some 10km along the southern bank of the Pearl River.

The city is building a new airport at a cost of about Yn12bn (\$1.5bn) and plans to extend the subway, construct two ring roads and add a light rail mass transit system to help overcome traffic congestion.

Plans are also afoot to overhaul its port facilities to take advantage of its central location as transport hub for five provinces - Guangdong, Hainan, Hunan, Jiangxi and Guizhou region, as well as the special economic zones of Shenzhen and Zuhai.

Spending on infrastructure is running at Yn60bn/Yn70bn (\$7.2bn-\$8.4bn), a year, financed partly by the municipality from taxes and about a third from foreign loans. Mr Gao estimates foreign borrowings are running at about \$2bn a year.

But he recognises that a continuing strong inflow of foreign investment is critical to Guangzhou remaining one of China's fastest growing cities, and one becoming more like Hong Kong.

"We want to achieve sustainable economic develop-

ment after Shanghai, handling a sixth of the country's imports and exports.

It has attracted some \$34.7bn in pledged foreign investment, with \$1bn utilised. This puts it third behind Shanghai and Shenzhen, the special economic zone next door to Hong Kong.

Hong Kong investors in the early 1980s poured funds into processing enterprises and later into real estate, but the high tide of Hong Kong investment has receded and the Japanese, Americans and Europeans are making their presence felt, attracted by increasingly prosperous consumers in China's southern regions.

Such companies as Procter and Gamble and Colgate have set up manufacturing operations in Guangzhou, with ambitious expansion plans.

"Three years ago, there was a lot of investment in real estate, including hotels and high-rise apartment buildings," said Mr Tang.

"but in the past year or so most investment has been in manufacturing."

This trend fits in with party secretary Gao Siren's vision, which is to steady the city's development after the mad rush of the 1980s and strive to improve citizens' "quality of life".

"We want to achieve sustainable economic develop-

ASIA-PACIFIC NEWS DIGEST

HK's economy in sharp upturn

Hong Kong's economy, which went through a sluggish period from 1994, rebounded sharply in the third quarter of last year, government statistics showed yesterday. Expenditure-based gross domestic product grew by 5.1 per cent in real terms compared with the same period in 1995.

Last September the government cut its economic growth forecast from 5 per cent to 4.7 per cent. Growth in the first two quarters of the year was 3.3 per cent and 4.6 per cent respectively.

Merchandise exports, the main engine of Hong Kong's economic growth, have been growing at a slower rate than witnessed in the past decade, but trade in services has been growing sharply. Export of services increased by 7.1 per cent in real terms in the third quarter of last year, on a year-on-year basis.

Louise Lucas, Hong Kong

Australian banker charged

Mr Simon Hannes, the 36-year-old investment banking executive charged in connection with heavy trading in TNT call options shortly before an A\$2bn (US\$1.5bn) bid by Holland's KPN was announced last year, made a brief court appearance yesterday, with the prosecution adding an additional charge.

The TNT options were bought in the name of a Mr Mark Booth, who has not been identified, and generated a profit of around A\$3m. Shortly after the bid was announced, the Australian Securities Commission froze the proceeds and in January charged Mr Hannes, who worked for Sydney-based Macquarie Bank, under the Financial Transaction Reports Act. Lawyers for Mr Hannes told the court he intended to plead not guilty. Nikki Tait, Sydney

Defence minister Qin dies

China's former defence minister, Qin Jiwei, who helped orchestrate the military crackdown on pro-democracy demonstrators in 1989, has died aged 82. A close associate of paramount leader Deng Xiaoping, Qin died early on Sunday, the People's Daily said yesterday. Reuter, Beijing

Canberra meeting on republic

Australia's conservative federal government is expected to put its plans for dealing with the "republic issue" - whether Australia should cut its constitutional ties to the British monarchy - to a meeting of government MPs in Canberra today. Support for replacing the British monarch by an Australian head of state has been growing, and most opinion polls show a majority of Australians now favour this.

Nikki Tait, Sydney

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

■ UNITED STATES ■ JAPAN ■ GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	-174.2	-163.0	0.7623	100.0	228.2	73.5	64.5	180.50	100.0	242.7	33.3	23.2	2,226.0	100.0
1986	231.0	-140.6	-153.4	0.9836	81.4	208.9	94.2	87.2	165.11	127.7	248.5	63.5	41.8	2,127.9	108.5
1987	220.2	-131.8	-144.1	1.1541	71.9	194.7	83.7	75.5	166.58	138.3	254.4	56.8	40.6	2,071.0	114.9
1988	230.2	-93.3	-94.1	1.017	70.0	218.7	79.8	67.0	151.51	153.7	272.6	61.4	42.4	2,073.9	114.1
1989	309.0	-73.3	-72.7	1.2745	66.7	220.0	50.0	48.5	153.87	147.0	310.1	65.1	51.5	2,068.1	113.3
1990	349.5	-53.5	-6.0	1.2391	65.7	249.4	77.7	57.4	166.44	143.7	324.8	51.8	38.1	2,053.7	111.1
1991	342.5	-53.5	-6.0	1.2391	65.7	249.4	77.7	57.4	166.44	143.7	324.8	51.8	38.1	2,053.7	111.1
1992	345.9	-65.2	-64.7	1.2567	64.4	256.6	96.2	86.7	164.05	150.7	330.9	52.2	30.6	2,036.7	109.5
1993	397.3	-98.7	-1.1705	66.3	300.4	118.6	112.5	130.31	181.0	325.2	50.6	15.0	1,933.7	125.3	
1994	342.2	-127.0	-125.2	1.1857	65.1	325.1	121.9	110.8	120.99	194.9	360.3	37.6	-16.6	1,919.8	125.8
1995	42														

Critics say airline aims to increase capacity at Heathrow for transatlantic flights

BA warned over switching runway slots

By George Parker,
Political Correspondent

British Airways was warned yesterday that any moves to release runway slots at London's Heathrow Airport by switching domestic services to Gatwick would be fiercely resisted by an incoming Labour government. Opinion polls suggest that Labour, the largest opposition party, will win the general election expected in May.

Mr Andrew Smith, the party's chief transport spokesman, said he was prepared to use powers under European Union regulations to pro-

tect Heathrow services for regional UK flights because of their importance to local economies and in attracting inward investment.

BA has already announced plans to switch its service from Heathrow to Plymouth and Newquay – in south-west England – to Gatwick to the dismay of the southwestern business community. Critics say BA plans to use the slots to increase services to the US. BA is under fire from rivals in its planned alliance with American Airlines. The alliance would control more than 60 per cent of the US-UK traffic.

Sir George Young, chief trans-

port minister, rejected requests from local MPs in the governing Conservative party to use his powers to "ringfence" the Heathrow slots for the south-west service, as permitted by the EU regulations.

But Mr Smith said: "Air links with the south-west and other parts of the UK are crucial for regional economies and inward investment. Labour would be prepared in government to ringfence slots where it was necessary to safeguard essential regional services, which should be at Heathrow rather than shoved out to Gatwick."

Regional business leaders value

flights to Heathrow because it offers a far wider range of connections to other services than those offered at Gatwick.

BA said Brymon, a wholly-owned BA subsidiary, was moving its service to Gatwick because Heathrow was full, with new entrants to the airport being given priority in the slots. BA said it would use the slots for a variety of long-haul and short-haul routes.

BA denied last night that had any immediate plans to move flights to other regional centres from Heathrow to Gatwick. The airline added, however: "That

doesn't mean we won't have any plans in five or 10 years' time."

The transport minister has powers under an EU directive to protect regional services where there is only one carrier on the route and where the service is seen as "vital to economic development".

Brymon's services to the south-west are due to be switched to Gatwick on March 30, almost certainly before a general election.

Sir George told MPs in the south-west that he would not exercise his powers to maintain the Brymon service at Heathrow because that would "distort the market".

UK NEWS DIGEST

\$81m weapons order cancelled

The Ministry of Defence has cancelled an order for an electronic warfare system from Siemens Plessey, the electronics company, after £50m (\$81m) had been spent on its development. The ministry is refusing to disclose the total value of the contract for production of the system, and the department is considering suing Siemens Plessey. The system, called Vixen, was designed to pin-point and interpret enemy battlefield communications, but it was more than five years late and failed to come up to scratch in a trial held by the British Army last November.

Mr David Clark, the Labour party's chief defence spokesman, said that the cancellation was "just another fiasco". Mr James Arbuthnot, the defence procurement minister, said that Vixen had been cancelled because the system was several years behind schedule, and that there was little prospect of the company rectifying the problems without further delay and expense. *Bernard Gray*

NORTHERN IRELAND

Peace process 'needs a de Klerk'

Mr Martin McGuinness, chief negotiator with Sinn Féin, the political wing of the Irish Republican Army, said British politics needed to produce "an F.W. de Klerk" to advance the cause of peace in Northern Ireland. Asked on TV whom he would like to win the coming UK general election, he said: "I suppose that I am very much Labour minded at heart." Sinn Féin was looking for a strong British government with a strong majority, he said. "What we're looking for is a de Klerk type figure to step out of the doors of 10 Downing Street . . . John Major [the UK prime minister] hasn't shown himself to be an F.W. de Klerk [the former South African president who paved way for majority rule]."

NUCLEAR DUMPING

Irish threaten EU court action

The government of the Republic of Ireland warned yesterday that it might take action in the European Court of Justice if the British government failed to block an underground nuclear waste dump. The UK Inspectorate of Pollution recently warned that the dump planned at the Sellafield complex in north-west England might leak radioactivity into the Irish Sea.

Mr Emmet Stagg, Ireland's minister of state at the Department of Energy, said that "all new information" which had emerged since a public inquiry into the project last year, would be submitted to the Irish attorney general's office in preparation for a possible suit in the European court. *John Murray Brown, Dublin*

TV SUBSCRIPTIONS

Revenue 'to rise by 275%'

Television subscription revenues in Britain will overtake those from advertising before 2001, reaching a total of £3.5bn a year, an increase of 275 per cent, according to a study published yesterday. Datamonitor Europe, the independent consultant, believes the push will come from the launch of a 200-channel service by British Sky Broadcasting before the end of this year and the likelihood of additional pay television services from digital terrestrial television. *Raymond Snoddy*

Prime London routes crumble

Business groups fear damage to capital's international reputation

Flows of 109,000 vehicles, faces weekend and overnight closures for at least five months.

London First, a business lobby group, believes that better value could be obtained from the capital's transport spending if repairs and new construction were better planned. Such business groups also believe that deteriorating transport links could damage London's reputation internationally, yet budgets are still being reduced.

Proponents of a single transport authority say that the fragmented management of road, rail and London Underground links in the capital makes for more difficult journeys. They also say that government parsimony

in allocating funds for transport projects – coupled with annual, if not more frequent, changes in official priorities – mean that what money there is cannot be spent sensibly.

A £17m (\$27m) scheme to replace 10,000 inaccurate, illegible or poorly sited direction signs on London's main roads, announced in June 1985, was shelved 13 months later in spite of projections that it would save £300m in drivers' time, business costs and reduced accidents.

Travel on the Underground railway has also become more time-consuming.

"It has become so difficult to get across London eas-

ily," said Ms Karin Purnaby, managing director of Career Design, an employment agency based in the City of London. "People used to be able to go for an interview on their way to work or in their lunch hour but now they have to take half a day off."

A £700m reduction in government funding for the Underground over the next three years will force it to delay long overdue spending on improving signalling, stations and track on several lines. London Transport's board will decide later this month on the extent of the cuts.

A city as big as London provides many travel alternatives but the limits are being reached. The Blackwall tunnel under the Thames to the east had to be closed last November after a truck became jammed in the entrance, causing gridlock

How London keeps moving

	Daily journeys	By purpose				
		Miles	%	30+	20%	10%
British Rail	1.4	.5				
Underground/DLR	2.6	10				
Bus	3.0	12				
Taxi	0.2	1				
Car and motorcycle	10.8	42				
Walk and pedal cycle	8.0	31				
Total	26.0					
Journeys involving a change to the same mode are counted as one journey						
Docklands Light Railway						

SOURCE: Planning London's Transport

in large areas of east London.

This led to the setting up of a joint committee of riverside districts to avoid similar confusion. Their engineers now discuss planned closures and bid jointly for funds to maintain their

bridges – although the scale of the problems with Hammersmith Bridge came as a surprise to officials. This is a step towards greater co-operation, but more needs to be done.

Charles Batchelor

Anglo-French IT group buys rail ticket company

By Charles Batchelor,
Transport Correspondent

Sema Group, an Anglo-French information technology concern, has paid £27m (\$43.7m) for BRBS, the British Railways Systems, which manages ticket sales and timetables for the UK national rail network. Sema, which was declared preferred bidder for BRBS last month, plans to

apply the UK company's expertise to other rail contracts around the world.

Sema, listed on the London stock market, said it would meet the acquisition cost of BRBS from its own resources. BRBS had turnover in 1995-96 of £87m.

No details of profits were given, but Sema said the deal would be positive for its earnings

per share. BRBS employs 1,100 people. Sema said it was also bidding to take over the management systems of the Romanian, Bulgarian and Brazilian railways. It already provides computer services to the French, Dutch and Spanish railways. The company is 41 per cent owned by France Télécom and Banque Paribas.

British Rail, the surviving re-

main of the former state railway network, also announced yesterday that National Railway Supplies, which provides equipment for signalling, telecommunications and trackwork, has been bought by the Unipart group of companies.

That sale and the Sema deal continue the sale of BR's specialist rail

businesses, many of which have been hidden inside BR but are expected to play an important role in the development of the privatised railway.

Unipart, which has also put in a bid for Railpart, British Rail's supplier of rolling stock spares, will take a 49 per cent stake in NRS's equity. Debt finance will be provided by Royal Bank of Scotland.

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FINANCIAL TIMES SURVEY

MERCOSUR

The Common Market of the South has already come a long way, but now co-ordinated policies are needed. Without them, further progress may prove more difficult.

Stephen Fidler reports

Trade pact sets the pace for integration

Latin American integration, an elusive ambition since the region shrugged off the colonial yoke in the last century, has advanced further since 1990 than in the previous 100 years. One reason for this has been the surprising progress made since its creation in 1991 by the Mercosur trade area.

Mercosur - Mercosur in Portuguese - is an acronym for the Common Market of the South, created under the Treaty of Asuncion by the governments of Argentina, Brazil, Paraguay and Uruguay.

Despite its name, it is still a long way from being a common market, because free movement of labour remains a distant and difficult prospect. But it has come a long way. Most trade within Mercosur is already tariff-free, although free trade in all products will not be realised until 2000. By then, agreements on cars and sugar should have been concluded.

A common external tariff has also been adopted on most products. But the group will not become a full customs union until 2006. Then Paraguay and Uruguay should adopt for all products the common external tariff,

which ranges from zero to 20 per cent, five years after the target date for Brazil and Argentina to do the same.

Mercosur has also widened. Chile acceded in October as an associate member, meaning it will become part of the group's free trade zone without adopting the common external tariff. Bolivia, a member of the Andean Pact trade area negotiated a similar association in December.

Negotiations for a free trade association with other members of the Andean group - Colombia, Ecuador, Peru and Venezuela - could start this year. Talks with Mexico may follow soon after.

The group is also in talks - going slowly - to establish a trade area with the European Union.

Since its members started reducing tariffs on one another's products in 1991, trade within Mercosur has grown rapidly - at an average 27 per cent a year from 1990 to 1995, at a time when members' trade with the rest of the world expanded an annual 7.5 per cent. One fifth of the four countries' foreign trade is now conducted with the other three Mercosur members, compared with 9 per cent in 1990.

Nonetheless, as Mercosur has progressed, the difficulties of integration have become more apparent.

The region's infrastructure is ill-equipped to deal with the growth of trade that has already taken place. But such difficulties for exporters are compounded by avoidable practical obstacles.

According to road hauliers, it can take three days to accomplish the main border crossing between Brazil and Argentina at Uruguaiana.

Most of the problems are down to obstructive officials.

"At the moment it is chaos. It is a question of mentality. We have told this to the authorities," said Mr



The region's infrastructure is ill-equipped to deal with the growth of trade that has already taken place: Trucks line up to cross the bridge linking Brazil and Paraguay at Foz do Iguaçu, Brazil

Picture: Jose Francisco Dantas/AV

	Full members				Associates		BRAZIL	PARAGUAY	URUGUAY	ARGENTINA
	Argentina	Brazil	Paraguay	Uruguay	Bolivia	Chile				
Population (million)	34.6	155.9	4.8	3.2	8.1	14.2	BOLIVIA			
Real GDP (\$bn)	281	676	6.9	17.8	7.0	67.3				
GDP per head (\$)	8,121	4,335	1,854	5,563	854	4,739	CHILE			
Exports (\$m)	20,893	46,500	1,982	2,108	1,041	16,038				
Imports (\$m)	18,728	49,700	3,667	2,867	1,263	14,665				

National Statistics, 1995

Remigio Vitoro, owner of Vitoro Transportes de Chile which has a 100-strong fleet of heavy trucks. Mr Raul Medina of Transportes San Carlos of Argentina added:

"Ultimately, we would like to see one combined post at the borders, not one for each country."

Another border problem is that goods imported from outside Mercosur often attract tariffs twice - both at their port of entry and then again when they cross the border.

More fundamentally perhaps, integration has reached the stage where a range of co-ordinated policies is now widely seen as

necessary. These include a unified competition code, a common anti-dumping policy, and the need to incorporate services into the Mercosur agreement.

Tax harmonisation is another issue. According to Mr Michel Abdala Alaby, executive vice-president of the Association of Brazilian Companies for Integration into Mercosur, companies in Brazil are disadvantaged by the amount of tax they pay.

In Brazil, tax accounts for an average of 42 per cent of production costs; in Argentina 28 per cent; in Uruguay 26 per cent; and Paraguay 20 per cent.

Issues such as public sector procurement also have to be tackled. Argentine construction companies complain that they do not receive the same treatment in Brazil as Brazilian companies get in Argentina. Another area where there is unequal treatment is in the oil sector, where in Brazil there is a state monopoly and where Argentina has an open market.

Brazil concerns its partners in other ways. A presidential decree last month to provide incentives to car makers to move to the north-east, for example, has brought a worried response from Argentina.

The attitude of Brazil to its smaller partners is thus central to the development

of Mercosur. This is particularly so because Mercosur lacks an institution such as the European Commission that can advance integration when the political will to do so is weak, or prevent it from going into reverse.

Mr Alieto Guadagni, Argentina's secretary of industry, commerce and mining, says: "We don't want to create a huge and costly bureaucracy, but we have to take care that we don't lose dynamism."

But Brazil - which accounts for 70 per cent of the grouping's production and population - has strongly resisted a supranational bureaucracy or court for Mercosur. As a result, most difficult decisions find their way to the four heads of state themselves.

Until now, there has been no lack of political will towards the development of Mercosur, although Brasilia has been cooler on the idea of pursuing rapid negotiations soon on a free trade area from Alaska to Tierra del Fuego. Leaders from the western hemisphere agreed this more than two years ago at a summit in Miami.

However, even if Brazilian President Fernando Henrique Cardoso secures re-election for another four-year term next year, continued political backing for Mercosur will also depend on the continued success of Brazil's and Argentina's anti-inflation programmes.

A return of inflation in either country would increase strains on the other economy and on Mercosur itself. As time passes, in any case, there will be greater pressure for economic policy co-ordination.

"A common market will require greater institutionalisation of Mercosur and will need greater harmonisation of exchange rates and other economic policies," said Mr Benedicto Pires, head of the foreign trade department at Fiesp, the São Paulo employers' federation.

Mercosur's success so far has led to parallels with the process of European integration. But the European Union has been driven by institutions which Mercosur lacks. As a result, further progress towards integration may well prove more difficult than the surprising advances made to date.



República Argentina



República Oriental del Uruguay

COMISION BINACIONAL PUENTE BUENOS AIRES - COLONIA**INTERNATIONAL BIDDING FOR THE DESIGN, CONSTRUCTION, OPERATION AND MAINTENANCE - AS A CONCESSION OF PUBLIC WORKS (BOT) - OF A BRIDGE CROSSING THE RIVER PLATE BETWEEN ARGENTINA AND URUGUAY.**

The Comision Binacional Puente Buenos Aires - Colonia (COBAICO), pursuant to the Reversal Notes signed by the Governments of Argentina and Uruguay on May 18th, 1996, hereby invites companies interested in the Pre-qualification and Data-Room leading to participate in an International Bid for the Design, Construction, Operation and Maintenance as a Concession of Public Works (BOT), of a bridge crossing the River Plate between Punta Lara (Argentina) and the proximity of Colonia del Sacramento (Uruguay), with an approximate of 41 km.

The International Bidding shall take the following steps:

1. Submission of Pre-qualification Information
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Specifications List price: US\$ 1,000 (one thousand dollars)

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ANNOUNCEMENT OF THE PRIVATIZATION OF THE PORT OF ROSARIO, ARGENTINA**Call for Qualifications**

ENTE ADMINISTRADOR PUERTO ROSARIO (EN.A.P.R.O.) officially announces the start of its program to privatize the Port of Rosario, a multi-purpose general cargo facility on the Paraná River in the Province of Santa Fe that serves both a major local market and countries of the broader MERCOSUR region. Accordingly, it invites those firms wishing to participate in the privatization program to submit *Statements of Qualification* that are in accordance with the *Preliminary Bid Specifications* that will be used to guide this process. The EN.A.P.R.O. privatization program calls for the concession agreement(s) to be signed and the Port transferred during 1997. A summary of the schedule for the first phase of the EN.A.P.R.O. privatization program is presented below.

Publish Qualification Requirements and Sale of Preliminary Specifications: EN.A.P.R.O. will make these documents available at its head office in Rosario from January 20 to April 7, 1997 between 9:00 a.m. and 5:00 p.m. The purchase price for the *Preliminary Specifications* is US\$5,000. Copies will be made available free of charge to any interested party on a for reference only basis.

Port and Data Room Visits: Parties who have purchased the *Preliminary Bid Specifications* may tour the port technical information displayed in the Data Room beginning February 3, 1997.

Conduct Investor Seminars: Meetings with prospective investors will be held in:

- Houston, USA: February 27, 1997 - 9:00am - Hilton Houston Plaza, 6633 Travis St.
- London, UK: March 3, 1997 - 11:00am - The London Chamber of Commerce and Industry, 33 Queen St.
- Madrid, Spain: March 7, 1997 - 1:30 pm - Hotel Villa Magna, Paseo De La Castellana 22
- Buenos Aires, Argentina: March 10, 1997 - 5:00 pm - Union Industrial Argentina, 1067 Alem Ave.

Submission of Qualifications: The deadline for submitting investor *Statements of Qualifications* is April 7, 1997 at 6:00 p.m. Only those documents that have been received by this time at the EN.A.P.R.O. head office in Rosario, Argentina will receive consideration.

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■ Barriers to trade: by David Pilling

Down-to-earth difficulties

Many of the customs union's problems will take several years to resolve

When Argentine truck drivers hauling goods to Brazil went on strike last December, two of their demands were of the most basic kind: that toilets be installed at the frontier and that customs officials stop demanding bribes.

Against the yardstick of Europe, which took 40 years to achieve today's still-imperfect economic unity, the four Mercosur countries have built their customs union at lightning speed. Between 1990 and 1996, trade among Mercosur's principal partners nearly quadrupled from \$4.1bn to about \$15.5bn as tariff barriers tumbled and the political decision to unite was taken.

But on the ground, not surprisingly, real unity remains a long way off. The truckers' demands highlight the fact that grandiose political decisions do not change basic realities such as poor physical infrastructure or the attitude of officials used to protecting their own narrow interests.

"Mercosur is very new. It's not going to take 30 years to perfect it (as in Europe), but it will take five or 10 years," says Mr Juan Tassell Kraut, plant manager at Mercedes-Benz in Argentina.

Mercosur itself, which like most Mercosur-based vehicle manufacturers is continually hauling parts and vehicles between its plants in Argentina and Brazil, says it has little problem with border delays. But smaller companies without the clout of the big multinationals complain of unnecessary bureaucracy and demands for bribes.

The road network between Argentina and Brazil, through which the vast bulk of Mercosur trade flows, is not adequate to meet today's demands efficiently, let alone those of the future. Railways are on a different gauge and the electricity grids are incompatible. When an Argentine bridge was unexpectedly closed for repairs late last year, it made national headlines because of the resulting chaos and financial losses.

Things are improving. "Truckers interviewed at the [Argentine-Brazilian] border say the inspection process is much quicker than it was a couple of years ago," according to a Mercosur report prepared by Orbis, a Washington-based business publisher. "Waits of several days or even weeks to cross the border - common in the early 1990s - are now extremely rare."

Just 1 or 2 per cent of trucks coming from Brazil are held up at the border for more than a day, compared with 20 per cent three years ago, the report says.

Mercosur countries are working towards the goal of standardising health certificates, so that a clean bill of health awarded to a product in one Mercosur country is acceptable to border officials in any of the others. Non-recognition of an Argentine certificate by, say, a Uruguayan or Brazilian official is one of the main causes of transport hold-ups.

Even here, there are improvements. According to



Subsidies on a Brazilian road: The road network between Argentina and Brazil, through which the vast bulk of Mercosur trade flows, is not adequate to meet today's demands efficiently, let alone those of the future

Picture: Ashley Ashcroft

Orbis, Argentine truckers carrying wine to Brazil used to have to wait at least five days while their cargo was sent to be analysed at a lab in Porto Alegre, 600km from the border post. Goods are now checked at Uruguayana, at the frontier itself.

The importance of improving infrastructure - for years constructed with the aim of servicing European or US, but not regional, markets - is never far from the political agenda. But there are disagreements as to how more rational links should be forged.

Mr Ricardo Lagos, Chile's public works minister, has called for more government spending on road projects between Mercosur states.

Without such a commitment, he says, the dream of big-oceanic block will remain just that. Other officials, notably those in Argentina, are wary of state involvement, believing this often leads to construction of white elephants.

Mr Juan Carlos Wasmoy, president of Paraguay, Mercosur's most physically isolated state, is understandingly a big fan of infrastructural development

but says the incident - repeated a few months later when Brazil granted tax breaks to car plants basing themselves in northern Brazil - underlines the need for a formalised complaints settlement body. Arbitration could thus be effected more rapidly and without relying on the good will of one or other of the Mercosur partners.

Paraguay, and to a lesser extent Argentina, agree that Mercosur must become more institutionalised if it is to avoid repeated disputes. But Brazil, the big kid on the block, is reluctant to give up its ability to act unilaterally or to tinker with Mercosur's rules when these suit its macro-economic goals.

Brazil, too, is less keen to move rapidly on labour, environmental or tax standards, or to build a free market in services - such as banking or air travel. On the other hand, neither Argentina nor Uruguay are in any hurry to see the free movement of labour within Mercosur, fearing that this could promote a flood of job-seekers from the union's poorest regions.

Such differences of opinion, born of the asymmetrical nature of Mercosur's four economies, have not yet spilled over into overt friction. Trade disputes that have arisen have been settled on an ad-hoc basis, often through force of presidential will.

But as Mercosur trade

expands, inevitably multiplying the number of disputes, such informal methods of arbitration are likely to prove inadequate.

Uruguay discovered this to its cost last year when Brazil, wary of cheap Asian textiles flooding its market, placed punitive non-tariff barriers on textile imports. Without realising it, the mighty Brazilian beast had swatted the tiny Uruguayan fly. Montevideo reacted bitterly to the measure, which would have caused severe damage to its own textile sector. After much pleading and a series of hastily-convened bilateral meetings, it won redemption.

But Uruguayan officials say the incident - repeated a few months later when Brazil granted tax breaks to car plants basing themselves in northern Brazil - underlines the need for a formalised complaints settlement body. Arbitration could thus be effected more rapidly and without relying on the good will of one or other of the Mercosur partners.

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But as Mercosur trade

expands, inevitably multiplying the number of disputes, such informal methods of arbitration are likely to prove inadequate.

Uruguay believes that this competition can be beneficial for our companies, in that it will oblige them to upgrade their operations permanently," says Mr Alvaro Ramos, Uruguay's foreign minister.

President Julio Maria Sanguinetti believes Uruguay's companies cannot hope to produce everything, but should specialise and exploit

the country's competitive advantages. These include a highly educated workforce, as well as strong agricultural, offshore banking and tourist sectors, he says.

Paper company Fanapal and rice producer Saman are two companies that have exploited the potential of the expanded market by concentrating on a narrower range of products and by marketing aggressively in the region. Saman has set up a subsidiary in Brazil and has adapted its products to suit that market.

Other companies have chosen to club together to achieve the necessary economies of scale. Alimur groups eight food producers which export to a single distribution point they have established in Porto Alegre, southern Brazil.

Uruguay, in addition to its pretensions as an offshore regional banking centre, also hopes that its capital, Montevideo, will become the Brussels of South America as Mercosur begins to develop supranational bodies. Uruguay would be a natural choice for such a role, but Mercosur may not move as rapidly as Montevideo would like towards establishing a permanent bureaucracy.

Paraguay, the poorest country in Mercosur with a per capita income of just over \$1,850, is South America's least industrialised country. Of the four partners it has most to gain from the customs union, although it is January 1996, leaving only those better suited to compete.

"Uruguay believes that this competition can be beneficial for our companies, in that it will oblige them to upgrade their operations permanently," says Mr Alvaro Ramos, Uruguay's foreign minister.

President Julio Maria Sanguinetti believes Uruguay's companies cannot hope to produce everything, but should specialise and exploit

the country's competitive advantages. These include a highly educated workforce, as well as strong agricultural, offshore banking and tourist sectors, he says.

Paper company Fanapal and rice producer Saman are two companies that have exploited the potential of the expanded market by concentrating on a narrower range of products and by marketing aggressively in the region. Saman has set up a subsidiary in Brazil and has adapted its products to suit that market.

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Sanguinetti: believes Uruguay's companies should specialise

sheet is based on its huge illicit economy, notably smuggling, an activity that could be squeezed as Mercosur's internal tariffs are lowered.

Paraguay's cheap labour and low taxes (income tax does not exist) could be a potential draw for investors. Its vast hydro-electric resources, which provide the cheapest energy in the world, could also be an attractive proposition for electro-intensive industries.

But little investment has yet materialised. Paraguay's skills base is low, its infrastructure poor and its mainly state-owned services riddled by inefficiencies and corruption.

Until Mercosur is more firmly established, few manufacturers are likely to base themselves in Paraguay. Should the free trade area for some reason fail, investors would be left with a market of only 4.5m relatively poor Paraguayans.

But, in one sense, Mercosur has already been invaluable in helping Paraguay's ambitions to become more modern.

When, last April, General Lino Oviedo revved up his tanks to mark the start of a very old-fashioned coup, Mercosur's leaders made it abundantly clear that dictatorships would be excluded from the union.

For Paraguayans exasperated with decades of military rule, that alone may have been worth the price of Mercosur admission.

PROFILE Industries Klabin de Papel and Celulose

Aloof attitude is evaporating

In common with many other large Brazilian companies, Industrias Klabin de Papel and Celulose took a relaxed view of Mercosur when the free-trade area was founded.

With the Brazilian economy dominating the Mercosur region - it provides about 70 per cent of the combined gross domestic product of the four countries - the opening up of the Mercosur region did not represent such a significant opportunity for Brazil as it did for its three neighbours.

Many Brazilian companies were concentrating on other markets. Klabin, one of Latin America's largest paper and pulp companies, exports 30 per cent of its production and already had well-established overseas markets, particularly in Europe.

Even here, there are improvements. According to

However, that aloof attitude to Mercosur is now changing. Klabin is about to become the first Brazilian paper group to set up a production facility in Argentina. The new factory, at Pilar, 60km from Buenos Aires, is set to start production of envelopes and sacks in the second half of this year.

The initial investment of \$20m in the new facility is modest, but it is an indication of the increasing importance the group is attributing to the Mercosur markets. "We feel there are significant opportunities for us, especially in Argentina," says Mr Célio Peres, a director of Klabin.

Klabin, founded in 1934, operates in most areas of the paper and pulp industry, including printing paper, paper sacks and envelopes, tissues, packaging paper, newspapers and recycling.

The group, which has 230,000ha of planted forest and sales in 1995 of \$1.28bn, is expected to list American Depository Receipts (ADRs) in 1997.

The group actually began exporting to Argentina over six years ago and Mr Peres says it has taken Klabin some time to learn how the market works and to invest. There are several reasons.

The strong market in Brazil in 1994 and 1995, when the group was operating at full capacity, acted as a disincentive for it to look closely at neighbouring countries during those years, he says.

The most important factor, though, has been improvements in the Argentine economy over recent years. "There exists now a stable economic environment, with lots of potential for growth," Mr Peres claims. In particular, he believes the prospects

for the local cement and flour industries, which are important clients for the products to be produced at Pilar, will expand strongly.

As well as lower transport costs for domestic sales, another advantage of building a factory in Argentina will be more secure local customer orders, Mr Peres says.

The Argentine market is less developed than Brazil, he says, although it is becoming more competitive, particularly since several Chilean companies have invested in the country.

The group will examine the performance of the Argentine plant to see if it might invest in extra facilities for other products. There is plenty of land available at the Pilar site for further development. Mr Peres says.

However Klabin is also considering other investment opportunities in

the north-east of Brazil, which puts it at the forefront of one of Mercosur's thorniest issues.

Brazil's Mercosur partners have complained about the subsidies which the Brazilian states offer for direct investment, and Argentina has been particularly angered by a series of incentives offered to carmakers to build factories in Brazil's north-east.

Klabin already has a small plant in the north-eastern city of Recife and is examining the possibility of building another one there. Mr Peres points out that while the group will receive little in the way of incentives for building a plant in Argentina, in Recife it receives a number of state and federal government tax breaks.

Geoff Dyer

Thinking about Argentina?

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Bartolomé Mitre 326

III MERCOSUR

■ The motor industries: by Jonathan Wheatley

Brasilia rocks the boat

When Brazil's national interests are concerned, Mercosur takes second place

A rapid bout of shuttle diplomacy this month seems to have diluted what could become Brazil and Argentina's second big dispute over the motor industry, after Brazil introduced incentives for manufacturers setting up in the country's underdeveloped north-east.

An earlier row, following Brazil's decision to set quotas for vehicle imports in mid-1995, was the biggest single threat to the unity of Mercosur since its inception.

Policy disagreements notwithstanding, both countries have seen substantial expansion of their motor industries in the 1990s. Agreements reached within Mercosur can take some of the credit. But Brazilian policies in the past two years

have shown that when purely national interests are concerned, Mercosur takes second place.

The latest fracas concerns incentives decreed by President Fernando Henrique Cardoso of Brazil in December. The move was widely seen as a political favour to Mr Cardoso's congressional allies in the north-east.

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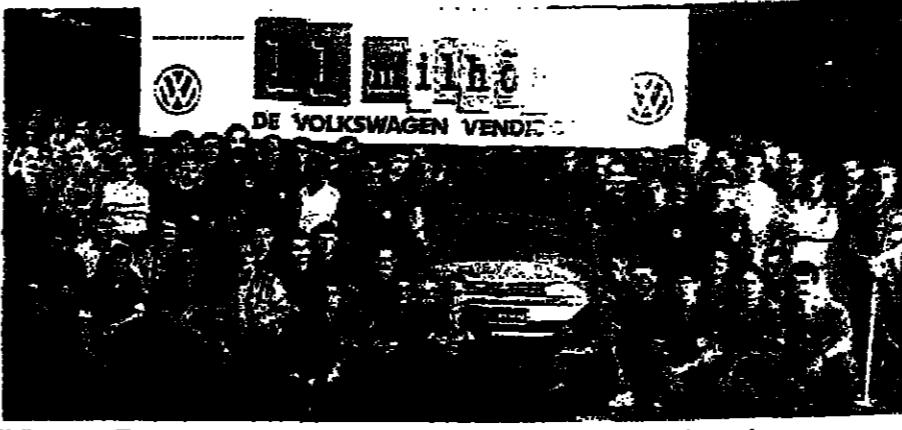
refused to rule out such a response. Mr Cardoso called on his neighbours to recognise the importance of domestic politics. A team from Brazil's trade ministry has since visited Buenos Aires to "explain" the measure.

"This was a political measure, it's the negative side of Brazil's auto regime," says Mr David Wheeler, an analyst at US brokerage Bear, Stearns in São Paulo.

Mr Wheeler points to earlier examples of the government's willingness to use the motor industry as a means of controlling the wider economy. In September 1994, as part of its economic stabilisation programme, it lowered duties on vehicle imports from 35 per cent to 20 per cent in order to force down prices of locally-produced vehicles.

When Brazil's trade balance plunged into the red at the end of the year, it quickly relented, raising tariffs to 32 per cent in February.

In Argentina's case, this meant incentives for production, export and investment



Volkswagen, Fiat, General Motors and Ford have all expanded production or plan to do so

that enabled output to increase from 90,000 vehicles in 1990 to 470,000 in 1994. In Brazil, it meant new measures designed to attract investments, including tax cuts on imports of capital goods.

Most significantly, manufacturers operating in both Argentina and Brazil may import vehicles from one market to the other at zero tariffs, provided they send vehicles to the same value in the other direction. In addition, both countries agreed to recognise each other's domestic policies for the industry.

In Argentina's case, this meant incentives for production, export and investment

ment in the industry. The big four manufacturers based there - Volkswagen, Fiat, General Motors and Ford - have all expanded production or plan to do so. Mercedes-Benz, BMW, Chrysler, Toyota, Honda, Kia and Asia Motors have revealed plans for Brazilian factories; Peugeot is expected to be next. In all, Brazil is expected to attract \$15bn in motor industry investments by the end of the decade; in the 1990s, investment was running at about \$500m a year.

Not surprisingly, Brazil's policies had an immediate effect on investment

turers. Mr Célio Batalha, director of government relations at Ford in São Paulo, describes them as "the most important expression of government industrial policy in recent years."

Brazil's trading partners have been less enthusiastic. The US, the EU, Japan, South Korea and Canada have all raised objections at the World Trade Organisation. This is far from being the only recent occasion on which Brazil has upset its trading partners with import restrictions. Measures to protect the textile and toy industries, among others.

■ Is Mercosur protectionist? by Stephen Fidler

Economist's report stirs controversy over trade pact's performance

Experts disagree over whether or not the arrangement serves as an important instrument of trade creation

Is Mercosur a protectionist fortress or an open economic zone that is encouraging world trade and economic efficiency? This dormant controversy was unleashed in October by a paper from Mr Alexander Yeats, principal economist of the World Bank's International Trade Division.

Mr Yeats's own opinion was clear from his report's title: *Does Mercosur's trade performance justify concerns about the effects of regional trade arrangements? Yes!*

The findings of his study, he said, "constitute the most convincing and disturbing evidence produced thus far that regional trade arrangements can be detrimental to both member and non-member countries."

The World Bank quickly distanced itself officially from the view, which was also immediately attacked by Mercosur's member governments. The report was even described by the more

conspiratorial-minded as a US-inspired shot across the bows of Mercosur. According to this view, the US fears that the would-be customs union of Brazil, Argentina, Uruguay and Paraguay will become the main vehicle for South American economic integration rather than the US-led North American Free Trade Agreement.

As described by Mr Yeats, the fears raised by Mercosur - and by extension the plethora of other such regional trade arrangements - are several-fold. They may divert attention from the more important multilateral negotiations process to reduce trade barriers; they may raise trade barriers against non-members, thereby undermining the achievements of the General Agreement on Tariffs and Trade; and their trade preferences for members of the same group may displace exports (and therefore investment) from more efficient third countries, a process known as trade diversion.

After examining the empirical evidence, Mr Yeats reached the conclusion that Mercosur was diverting trade. The products which were showing the greatest export growth within Mercosur "are those for which Mercosur has not demonstrated an ability to export

competitively elsewhere", he concluded. Three groups of products - transport equipment, non-electrical machinery and electrical machinery - accounted for more than half of the total increase in trade within the region from 1988 to 1994.

The "key point", according to Mr Yeats, is that the regional orientation of exports is growing more rapidly for products where there is no evidence that Mercosur has any natural comparative advantage". He then showed that the tariffs were the principal factor in such "perverse" trade changes - and that non-tariff restrictions reinforced these distorting effects.

Mr Robert Devlin, chief of the Integration, Trade and Hemispheric Issues Division of the Inter-American Development Bank, was among those who leapt to the defence of Mercosur. He argued that since its inception in 1991 Mercosur's "open regionalism" has served as an important instrument of trade creation and modernisation.

Mr Devlin argued that if Mercosur was truly diverting trade it would "crowd out" imports from other sources. This had not occurred: the growth of intra-Mercosur imports merely captured the more general phe-

nomenon of rapidly increasing imports to the Mercosur countries, which had grown 180 per cent from 1990 to 1995, compared with just 50 per cent for exports.

While the share of Mercosur imports of total imports had risen, from 15 per cent to 19 per cent, so too had the shares of Nafta (from 23 to 24 per cent), the European Union (23 to 29 per cent), Japan and the newly-industrialised countries (8 to 11 per cent), with only the share of a group of less-developed countries declining from 30 to 18 per cent.

Moreover, when imports are examined sectorally or product-by-product, rather than exports as in the Yeats study, only one sector - fuel, minerals and metals - showed a shift towards Mercosur. Of 250 product categories, two-thirds of products did not change regional orientation between 1990 and 1995, or changed it in the direction of third countries. There was also a low correlation between Mercosur preferences and the change in regional orientation of imports.

Many of the imports that have shifted orientation towards Mercosur - such as those in the agricultural or agro-industrial sectors - could plausibly reflect productive or supply advantages. Mr Devlin concluded there was no evidence of trade diversion. Moreover, the unilateral reduction of tariffs to third parties - the average Mercosur tariff on manufactures fell to 12 per cent in 1995 from 25 per cent in 1990 - was with other factors, such as greater economic stability, preparing Mercosur for the necessary next stage of its opening to the world.

Even supporters of Mercosur, such as Mr Devlin, agree with some of

Explosive pictorial lives

William Packer reviews the work of Fiona Rae and Gary Hume at the Saatchi Gallery

Fiona Rae and Gary Hume have much in common. They are painters more or less of an age, both in their middle thirties; both were students at the Goldsmiths' College in the later 1980s, where their careers overlapped and, in 1988, they took part in Damien Hirst's seminal *Pretensions* exhibition; and both in their time have been on the short-list for the Turner Prize. But there the similarities end.

Rae was successful almost from the moment she left art school. Hume had to wait a little longer, which in these impatent times came close to being left on the shelf. But then again there is something almost old-fashioned in the painterly nature of Rae's work: something that is altogether more of the 1990s in Hume's take-it-or-leave-it conceptual simplicities. To every thing there is a season, I suppose.

The essential difference between them is that the one has evolved and developed in her work by her engagement with the act and processes of painting; the other uses painting purely as an effective means to his end, which is the statement of the predetermined image. It is the difference between work that grows and is the expression of itself, and that which is the illustration of an unlooked-for beauty.

They are clever too, perhaps too clever, for Rae is a true daughter of Goldsmiths', always rationalising, always justifying. "Painting is... problem solving, grappling with the language," she says. But the counter is there and all but recognised. "If you can't solve a painting at first, sometimes it goes out on a limb and becomes really interesting and unpredictable." Quite so. Solution and resolution are not at all the same thing, and she is too bright and real an artist not to sense, if not yet openly to acknowledge, that she has only to trust her intuition.

It is not a question of either/or, nor of better or worse, but only of two artists set fairly far apart. Their representation in the Saatchi Collection is in each case retrospective, going back to 1989, and bringing us bang up-to-date.

Rae is an abstract painter whose work carries veiled figurative allusions - a boat, a box, Mickey Mouse - and constant reference to modern art, though the particular *homage* shifts all the time: now Kandinsky, now Philip Guston, Cly福德 Still, later Picasso. The canvas is for her an arena within which to set up pic-

Her paintings are never less than interesting, drawing us in, despite their unapologetic physicality and awkwardness of handling, to their curiously violent and explosive pictorial life. We look on, as at a battle or disaster, with a curious mixture of horror and fascination, surprised by an unlooked-for beauty.

They are clever too, perhaps too clever, for Hume is a true daughter of Goldsmiths', always rationalising, always justifying. "Painting is... problem solving, grappling with the language," she says. But the counter is there and all but recognised. "If you can't solve a painting at first, sometimes it goes out on a limb and becomes really interesting and unpredictable." Quite so. Solution and resolution are not at all the same thing, and she is too bright and real an artist not to sense, if not yet openly to acknowledge, that she has only to trust her intuition.

Gary Hume makes the very point by contradiction, for with him the ideas comes first and last, with the painting no more than its graphic proposition. Andy Warhol is clearly an abiding influence, but unfortunately the aspirant lacks anything of the master's subtlety and ironical,



Veiled figurative allusions: 'Untitled (orange, green & black)', 1991 by Fiona Rae

dead-pan wit. He too can say "The surface is all you get of me", but the trouble is that he speaks no more than the truth. This surface of household paint, laid on thick, unmediated by any delicacy of touch, variety of texture or graphic flair, is all there is. Only the rationale, the excuse, the "what this work is all about".

Hume first "made work about" doors, hospital swing doors, the support cut to size and painted with simple squares and circles for windows and protective panels. "If you didn't know they were doors, you might mistake the symmetrical patterns for car-

toon faces or inscrutable signs. Decorative abstraction replaces paradox... Pattern-making asserts the right to surface." Heads he wins, tails we lose. Since he tired of doors, "having exhausted the theme," he has turned to other images, all expressed with the same ham-fistedness.

Mussolini's marble athletes in Rome thus inspired "a courageous shift into representation" with a series of schematic figures. "Whether you see the silhouette as erotic, threatening or both, is up to you." Indeed.

In his "Begging for It", a praying figure has her arms

painted black "to encourage sadomasochistic inferences... Is Hume subscribing to the virgin/whore dichotomy or subverting the very idea that women can be split into simplistic categories?" His "Two Three-Leaf Clovers" is a decorative emblem representing the moment of conception - or artistic inspiration. All is assertion, special-pleading that has nothing to do with paintings as paintings. It is vacuous nonsense.

Fiona Rae and Gary Hume: The Saatchi Gallery, 98a Boundary Road NW8, until April 6; open Thursdays to Sundays 12-6pm.

Theatre/Ian Shuttleworth

Skilled improvisation

(Black Grape) Ryder, cavorting with wild abandon and specialising in depth-charges of vulgarity; and Eddie Izzard contributes the cutting-edge weirdness of the likes of Tricky.

Izzard, a man who has more or less registered the phrase "real rambling" as a trademark, might have proved to be the joker even in such a pack; in fact, his propensity for straying from the proper path proves bountiful. Few others would have made the connection between a chainsaw and Arthurian legend, digressed from a schoolroom scene into a contest with Mularkey to see which of them could do the better impersonation of Deryck Guyler in *Please, Sir!* or explained his wandering dialect with a visit to the Accent Exchange Board.

The enjoyment of improv com-

edy rests on generosity: performers are prepared to find themselves being momentarily crappy and audiences willing to watch them being so, but to bear with them on the understanding that things move so quickly that their mistakes will seldom catch them up. The *One Word* quartet has no trouble in establishing such a compact as a foundation for two hours of don't-stop-to-think laughter. Moreover, despite the techno tapes and lighting which open each half, they plainly have the souls of rockers: the opening night was rounded off with the wanton destruction of their only props, four wooden stools, in finest Pete Townshend style.

At the Albery Theatre, London WC2, until March 16 (0171-867-1115).



Eddie Izzard: provides the cutting-edge weirdness

artists during the period 1900-1930. The artists represented include Henry Tonks, Gwen John, Christopher Nevinson, Sylvia Slesinger, Walter Sickert and David Bomberg; to April 20

LONDON EXHIBITION

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designer Charles Rennie Mackintosh. The centrepiece of the exhibition is the Ladies' Luncheon Room from Miss Cranston's Ingram Street Tea Rooms - one of Mackintosh's four commissions for Miss Cranston. The room, which has not been seen since it was demolished in 1971, is restored for this exhibition; to Feb 18

■ PARIS

EXHIBITION Centre Georges Pompidou Tel: 33-1-44 78 12 33

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EXHIBITION Théâtre National de l'Opéra - Opéra Garnier Tel: 33-1-42 66 50 22

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works by Slonimsky, Beethoven and Rachmaninov; 8pm; Feb 5, 6 (2pm), 7, 8

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NBC/Super Channel:

07.00 FT Business Morning

10.00 European Money Wheel

Nonstop live coverage until 15.00 of European business and the financial markets

17.30 Financial Times Business Tonight

CNBC:

08.30 Squawk Box

10.00 European Money Wheel

18.00 Financial Times Business Tonight

19.00 Financial Times Business Tonight

20.00 European Money Wheel

21.00 Financial Times Business Tonight

22.00 Financial Times Business Tonight

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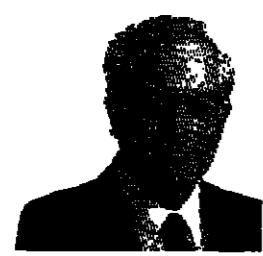
71.00 Financial Times Business Tonight

72.00 Financial Times Business Tonight

73.00 Financial Times Business Tonight

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COMMENT & ANALYSIS



Martin Wolf

Laced into a Tory corset

Labour will find it impossible to deliver better public services, having committed itself to the government's restrained spending plans until 1999

"No one pretends that democracy is perfect or all-wise," Sir Winston Churchill told the House of Commons almost exactly 50 years ago. "Indeed it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time."

The approach of elections in the UK's mature democracy makes the most devoted adherent appreciate how bad those others must be. But nothing is quite so dismal as the debate on taxes and spending in which the Labour party has now committed itself to some implausibly tight targets.

If Labour - new or old - stands for anything, it is better public services. Yet Mr Gordon Brown, the shadow chancellor, has announced his intention to stick to the spending plans for 1997-98 and 1998-99 that were set out by Mr Kenneth Clarke in his November Budget.

Consider a few nasty facts about those plans for public spending: the real rise in overall spending between 1996-97 and 1998-99 is 0.7 per cent; in non-cyclical public spending it is 0.9 per cent; in spending on health, 0.3 per cent; in spending by the Department for Education and Employment, minus 9 per cent; and in local authority self-financed spending, it is zero.

The only important area in which spending is expected to grow significantly is non-cyclical social security, up 3.7 per cent over the three financial years.

Over the past two decades public spending has tended to grow roughly in line with gross domestic product. This financial year the share is expected to be 41% per cent, low by UK standards - and extremely low by those of the EU where the average is now some 50 per cent of GDP. Nevertheless, a decline is forecast by the government, to 39 per

cent of UK GDP by 1998-99. How plausible is this? The three biggest areas of public spending are social security, health and education.

Together they account for 60 per cent of public expenditure, up from under 50 per cent in the late 1970s. As the Institute for Fiscal Studies showed in its Green Budget, published in October, social security spending has grown at around 3.5 per cent a year in real terms since 1978-79, health at 3.4 per cent a year and education at roughly the same rate as the economy.

Evidently, historic rates of growth for health and education, in particular, are vastly higher than the plans Labour has now embraced. Meeting the government's targets will also require continuing constraints on the public sector pay bill and on public investment. Since pay settlements in the public sector have been in line with those in the private sector, there is no reason to expect a sudden surge in public sector wages.

The question is rather whether governments can maintain the squeeze on numbers of public sector employees, which have fallen continuously from 6.2m in 1985 to 5m in 1995. Similar questions arise about net public investment, which shrank from 2.3 per cent of GDP in 1992-93 to 1.2 per cent in 1996-97 and is planned to fall to below 1 per cent of GDP by the end of the decade.

Over any two-year period it may be possible to put spending in a tight corset. But if it is too tight, the wearer will die of asphyxiation. That is also the risk here.

Public spending on investment, wages, social security, health and education can be kept on a low growth path only by delivering worse services or making radical policy changes. Why are these the alternatives?

They follow from the underlying characteristics of the core public sector activities:

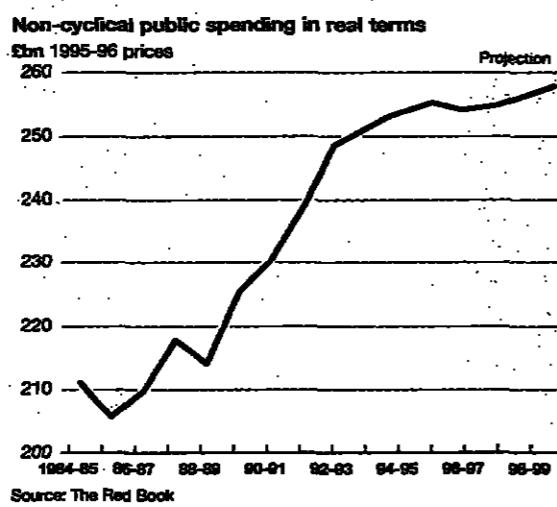
- As they grow richer, people want to spend a higher proportion of their incomes on education and health.

- Education and health are labour-intensive services - in which machines cannot easily be substituted for human labour.

- Ageing increases demand for health services and social security transfers.

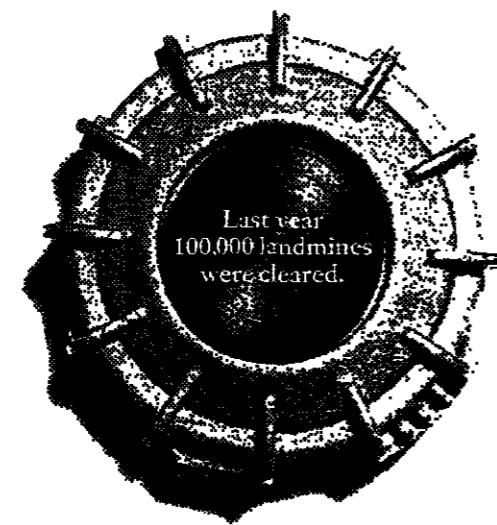
- Technical progress in healthcare increases the

Mr Brown's implausible targets



Source: The Red Book

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It just doesn't add up. The world is making more landmines than it can ever hope to clear.

Unfortunately the problem isn't just a mathematical one.

Every month over two thousand innocent civilians are maimed or killed

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The weapons are in clear breach of international humanitarian law.

That's the reason why the International Committee of the Red Cross is committed to a worldwide ban on the

production, export and use of these weapons.



Personal View · Lamberto Dini

The Roman road

Italy's flexibility plan could make the EU work better but is no substitute for integration

Italy believes that flexibility is the way ahead for the European Union as it embarks on economic and monetary union and sets the pace for enlargement towards the east.

To have some groups of states proceeding faster than others is not necessarily going to destroy the solidarity of the Union, but their *modus operandi* needs to be carefully defined.

That is why I have submitted to our partners in the intergovernmental conference a comprehensive set of proposals which spell out how such flexibility may be implemented, and the principles on which it should be based.

The EU is formed by member states with equal rights and equal obligations: this will remain its essential character. Flexibility should be the exception rather than the rule: it will vest no one with a veto, and will operate through procedures adopted by the EU as a whole.

There should be a general clause in the revised Maastricht treaty allowing flexible arrangements, and setting down three essential principles:

- They must not put in question the *acquis communautaire*, the body of legal agreements which represents the main building blocks of the Union.

- They must take place within the established institutional framework of the Union.

- They must be open to participation by all member states at any time, thus avoiding any risk of discrimination.

Flexibility should not apply to the core areas of citizenship rights, freedom of movement, the common agricultural policy, competition, trade and cohesion policies. In other areas, flexibility

can operate without predefined limitations. But in deciding to pursue such a course, care must be taken to safeguard vital interests without impeding progress.

The Italian proposal would give the European Commission the exclusive right to submit proposals to the Council of Ministers for such "differentiated integration".

As I would prefer to call it, All states have national interests - and if a particular group of "core" or strong states were able to advocate flexibility, EU aims and policies could be distorted.

Before making any proposal, the Commission should evaluate whether the proposed arrangements are consistent with EU policies, what their impact will be on all member states, and how states unwilling or unable to participate can do so later.

The Commission, as the guardian of the treaties, is ideally placed for this task.

Any flexibility proposal would have to be approved by the Council of Ministers - there would be no direct rule from Brussels on this. The Council would vote on such a proposal by qualified majority.

To insist on unanimity in such cases would be tantamount to giving a permanent right of veto to any member state, which would defeat the purpose of a flexible arrangement. Flexibility should be neither the instrument of a minority to forge ahead by marginalising others, nor a weapon for a minority to hinder initiatives pursued in a restricted framework with majority agreement.

Flexible arrangements would be implemented within the present institutional framework of the EU. This means that the Commission, the European parliament and the Court of Justice would retain their full authority over such areas. Only in the Council of Ministers would "variable geometry" apply, with voting restricted to the participating states in areas subject to flexibility.

Similarly, flexibility should not apply to foreign policy, the so-called second

pillar of the Maastricht treaty. Member states which wish to move faster towards co-operation on security, defence and armaments - currently in the domain of the Western European Union - should do so within the existing institutional framework.

In justice and home affairs, the third pillar, the main priority will be to extend the opportunities for a limited number of countries to reach agreements such as the Schengen treaty, which has allowed several member states to dismantle border controls.

Flexibility is not a substitute for integration and should not aim at transforming the EU - it should be seen as a way of making it work more efficiently. It will increasingly become an extremely varied, if dynamic, pattern of co-operation and interests. It will have to balance diversity with cohesion: no member state will be allowed to block it and none will be able to hijack it for its own interests.

This is why the Italian proposals provide for both effective decision-making - through majority voting in the Council - and for consideration of the general interest by clearly defining the areas of application and the procedures. By giving the Commission the exclusive right to propose initiatives, they ensure that flexibility - wherever it is introduced, will not run counter to the grain of European co-operation.

"Differentiated integration" is designed to play an important role in helping Europe evolve towards an "ever-closer Union", and will not trigger its fragmentation, as some may fear. Italy's proposals aim at clarifying the principles and setting up appropriate procedures to ensure a pragmatic balance between the aspirations of those who would like to leapfrog into the future, and those who are more cautious.

The author is Italian foreign minister

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Glaxo board move flouts governance code

From Lord Ezra

Sir, The code on corporate governance, propounded by the Cadbury Committee in 1992, has been dealt a severe blow by the decision of the Glaxo Wellcome board to appoint an executive chairman ("Glaxo to axe non-executive chairman post", January 31). This would create just the sort of concentration of power which the Cadbury Committee was at pains to prevent and could potentially weaken the position of shareholders, particularly in times of difficulty.

If the voluntary code is to be so easily flouted, and by such a leading company, the question arises of whether a more formal two-tier structure for the boards of British companies should be re-examined. I have served on

the supervisory board of a Dutch company and found relations between non-executive and executive directors were much clearer.

In the UK there is considerable variability, even now after five years of Cadbury, in the role which non-executive directors play.

In the Netherlands there can be no doubt about it. The chairman of the management board is chief executive and runs the company with his executive directors. They are, however, responsible for the management of the company to the supervisory board of non-executive directors under their chairman, who presides both at board meetings and at the agm. Having a clearly defined supervisory structure does not, of course, pre-

vent companies from running into difficulties. It means, however, that once they do so, there is, in my experience, more likelihood of the difficulties being identified earlier and of relations with shareholders, banks and other creditors being handled more effectively than if the management on their own had to do it.

I know the Confederation of British Industry has recently rejected the idea of two-tier boards but what has now happened at Glaxo Wellcome calls for this concept to be reconsidered.

Derek Ezra,
House of Lords,
London SW1A 0PW, UK

From Mr Hugh Arthur

Sir, I refer to your corpo-

rate governance at Glaxo Wellcome ("Glaxo to axe non-executive chairman post", January 31).

Dependence on overseas provinces for revenue... concentration of power in executive chairman - is Sir Richard Sykes perhaps seeking to model the Glaxo empire on any of the examples to be found in *The Cambridge Ancient History*, the complete set of which I see from your photograph lines the shelves of the company boardroom?

At least the annual general meeting has prudently been fixed to take place in May rather than March!

Hugh Arthur,
11 Wansford Close,
Brentwood,
Essex CM14 4PU, UK

Loser may be social priorities

From Ms Christine Whitehead

Sir, Simon Kuper's article, "A leap in the dark with microloans" (January 31), provides a good overview of some of the debates around microcredit. However, he is inaccurate in stating that Ben Rogaly and Oxfam argue that microcredit "could divert funds from less fashionable anti-poverty causes such as famine relief".

Oxfam's concern is that an over-emphasis on microcredit could lead to funds being diverted from social priorities such as health and education. We do not see it as competing with famine relief.

Microcredit should not be seen as a stand-alone, anti-poverty formula, but rather part of a broader, integrated strategy for combating poverty.

Christine Whitehead,
senior policy adviser,
Oxfam UK and
Ireland,
274 Banbury Road,
Oxford OX2 7DZ, UK

Concern should be to cut own taxes

From Mr Bryan Cassidy MEP

Sir, Lionel Barber highlights French and German concern over "beggar-my-neighbour" tax policies ("EU ministers open fire on tax packers", January 31). The correct analysis is that French and German tax rates need to be brought into line with more competitive tax rates in countries such as the UK.

We are starting to hear in the European parliament the use of the phrase "fiscal dumping" in the same way

as we have become accustomed to hearing about "social dumping". The use of both phrases indicates a head in the sand attitude to two of the most pressing problems which France and Germany have - uncompetitive tax rates and uncompetitive labour rates.

Bryan Cassidy,
MEP, Dorset and East Devon,
Bureau 827 Van Maerlant,
European Parliament,
97-113 Rue Belliard,
1040 Brussels, Belgium

From Gareth Thomas

water utilities are, by the same measure, 40th of 43, in Japan 43rd of 44, in Europe as a whole 37th of 44.

Why does the regulator regime allow such generous returns in the UK? Utilities are monopolies. As the Monopolies and Mergers Commission said of the water industry, it "is one of relatively low risk given the almost absolute lack of actual and potential competitors". A reasonable pricing formula might be built on the cost base of the most efficient supplier (not necessarily

in the UK). It should allow returns in inverse proportion to the extent to which that benchmark was exceeded, subject to an overall limit (a modest real rate of return sufficient to attract capital). Such a formula would have a more profound and beneficial long-term impact on the utilities' real efficiency and on their customers than Labour's proposed windfall tax.

Gareth Thomas,
13 Rayleigh Road,
London SW19 3RE, UK

Utilities are allowed over-generous returns

From Mr Gareth Thomas

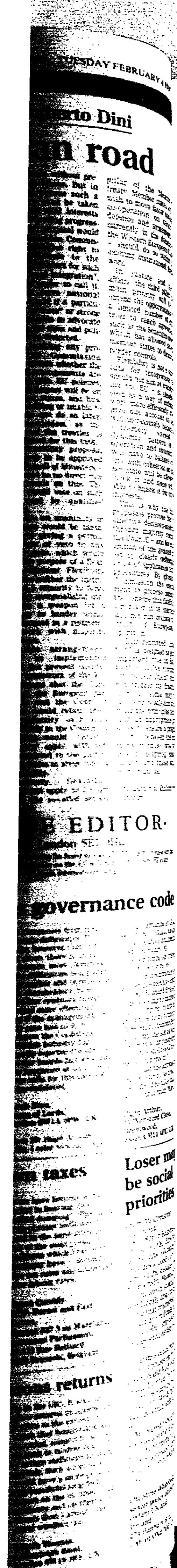
Sir, The FT500 (January 24) contained some alarming points for the customers of the monopoly utilities in the UK. In particular:

- Electric and water utilities in Britain enjoy a return on capital employed averaging 17.6 per cent.

- This puts them 29th out of 43 sectors. It is about the same as retailing, and higher than for instance, textile products, oil, office equipment, building materials and paper and paper products.

- In the US, electric and

utility in the



FINANCIAL TIMES

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Tuesday February 4 1997

Brinkmanship over Cuba

The European Union and the US are involved in a dangerous game of brinkmanship over foreign investment in Cuba. The danger is that if neither side blinks, the loser will be the World Trade Organisation in general and its disputes settlement procedure in particular.

That system, intended to be binding and universally respected, was one of the most important achievements of the Uruguay round of trade liberalisation. At this early stage in its existence, it needs to be reinforced, not undermined.

The key to the problem is the silly and indefensible Helms-Burton Act, which authorises private US court actions against foreign companies doing business in Cuba. That legislation has been rightly condemned well beyond the EU for its attempt to impose politically inspired US laws on the rest of the world. It amounts to a blatant example of extra-territoriality, which would most probably be ruled out of court by any WTO dispute panel.

Having said which, it must be recognised that President Bill Clinton has a real political problem over the act. He approved it, after initial hesitation, when two aircraft were shot down by Cuban missiles in the run-up to the US election campaign. Since then he has managed to draw its teeth, by waiving its most damaging provisions, so that

the net effect has been minimal. But any hope of persuading a Republican-dominated Congress to repeal the legislation is likely to be vain.

The US administration has blocked establishment of a WTO dispute panel, arguing that the act is dictated by national security, and is therefore beyond its remit. That is surely wrong. A trade embargo on Cuba might be justifiable on such grounds, but retrospective action to claim damages for past foreign investments scarcely qualifies.

Now Sir Leon Brittan, the EU trade commissioner, is seeking to bring matters to a head by calling on the WTO itself to nominate a panel. The organisation cannot refuse. But there is a danger that Washington will be tempted to block it, or to defy any ruling which goes against it. Either way, respect for the settlement procedure would be severely damaged.

It is certainly not easy to see how a solution can be found which persuades the US to back away from ill-advised legislation, without unacceptable loss of face. The EU member states went some way at their Dublin summit in December, by calling for more democracy in Cuba. But it will not help to bring matters to a head too soon in the WTO. Sir Leon may have right on his side, but he needs to allow more time for cool heads to prevail.

The EU queue

The statements made at Davos over the weekend by leading members of the Czech and Polish governments showed a welcome realism about the timetable for EU enlargement. Even Mr Vladimir Dlouhy, the Czech trade and industry minister, gave 2002 or 2003 as the likely date of accession for his country.

Mr Dlouhy rightly pointed out that these adjustments, however economically desirable in the long term, will have severe social costs in the short, and could easily provoke a "Euro-sceptic" backlash in the candidate countries if the EU is not clearly seen to be pressing ahead. Sir Leon Brittan's recent proposal to exempt central and east European products from the EU's anti-dumping regime (now the main obstacle to market access for non-agricultural goods), provided they enforce EU rules on competition and state subsidies to industry, is a constructive one. Member states must be ready to resist the foreseeable opposition to it from producer lobbies.

Perhaps the most difficult issue is one touched on by Mr Kolodko, who doubted whether all 10 central and east European candidate countries would succeed in joining the EU even if they met the criteria. The EU must act to dispel that impression. Economic problems will no doubt ensure that there are different timetables for different countries. But neither Balkan nor Baltic states must be allowed to feel that the EU has rejected them *sine die*.

It would be unfortunate, however, if these statements further diluted the already weak sense of urgency on the EU side. Even to complete the accession process for the three countries mentioned by 2003 will require an enormous effort on both sides, given the procedural and substantive issues involved.

On the EU side, traumatic decisions have to be taken about the size of the budget, the redistribution of resources through the structural funds, and the financing of agriculture, as well as the institutions of a

larger union. On the candidate side, post-communist societies have much greater adjustments to make than did even post-fascist ones like Spain and Portugal.

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Euro-jibes

Mr John Major, the UK prime minister, once boasted that he wanted to be at the heart of Europe. It is beginning to seem as if he wants to be there as a cardiac surgeon, performing a transplant.

Yesterday, his party launched a new scaremongering campaign alleging that Labour's support for the Maastricht treaty's social chapter would cost the UK hundreds of thousands of jobs. Mr Major may well find valid arguments against strands of EU social legislation when he delivers a follow-up speech in Brussels today, but who will listen? The Tory campaign about the union has become so rancorous negative that any serious points are drowned in the adverbs.

In this vein, Mr Malcolm Rifkind, the foreign secretary, reflected in Mr Cook's caution. Moreover, the distance between the two parties' "wait and see" approaches is not large in formal terms. Both parties retain the option to join in a second wave, perhaps in 2002, when the euro becomes legal tender.

But there is a world of difference between the two parties' rhetoric – one suggesting cautious consideration and the other querulous dislike of the whole project. If the Conservative government turns the election campaign into a diatribe on Europe, it will do serious damage to Britain's interests. By adopting a more constructive tone, Labour could go some way to offering British voters the choice they need on Emu.

eventually bristled with caveats, they were expressed in a language which Britain's EU partners could translate into more than electoral ballyhoo.

Nobody now expects the UK to join Emu at the earliest date in 1999, but there is a big difference between saying you could join eventually and being seen by other EU countries as a definite "out". It is the difference between waiting until the conditions are right to join the game and throwing sand in the eyes of continental players. It is also the difference between a drift towards complete isolation from the rest of Europe, culminating in withdrawal, and the possibility of engagement.

Labour has its own difficulties with party Europhobes, reflected in Mr Cook's caution. Moreover, the distance between the two parties' "wait and see" approaches is not large in formal terms. Both parties retain the option to join in a second wave, perhaps in 2002, when the euro becomes legal tender.

As the Tory mood music becomes ever more dissonant, it has at least drawn a welcome response from the opposition. Mr Robin Cook, Labour's foreign affairs spokesman, took a cautious but significant step at the weekend towards European monetary union. Although his view that Britain would join

ever since Prussian times, Germany's Landesbanks have enjoyed a privileged status. Underwritten by unlimited state guarantees, they have been among the elite of banks with top credit ratings – able to borrow at the most favourable interest rates to finance their business.

But a simmering dispute over capital injections in the early 1990s into these state-owned regional banks has led their private sector rivals to demand an investigation by the competition regulators in the European Commission.

Brussels is resisting the call – under intense pressure from the German government which is anxious not to disturb Germany's cosy banking structure.

At a meeting a year ago between Mr Karel Van Miert, the competition commissioner, and Mr Helmut Kohl, the German chancellor made clear he did not want the Commission to interfere with guarantees for state-owned banks. Any move by Brussels would call into question the position of Germany's savings banks for which the Landesbanks perform essential services such as payments transactions and securities dealings.

Mr Kohl's intervention was also aimed at reassuring the German public, which is still sceptical of European monetary union and the planned replacement of the D-Mark. Any move affecting the savings banks, which enjoy great public confidence, could add to such doubts.

However, other European banks have started to criticise the advantage the Landesbanks have gained from their state guarantees. "British and French banks also feel they have been put at a competitive disadvantage," says Mr Wolfgang Arnold, deputy director of the German Banking Association which represents 300 banks including such financial giants as Deutsche Bank and Dresdner Bank. "This is an international, not just a national, matter. Huge sums are involved and the competitive distortion is considerable."

The specific complaint by Germany's private banking association argues that the cost of the capital injected into the six Landesbanks was well below what they would have had to pay and gave them an unfair advantage. In today's tough international markets, Mr Arnold notes, lending and borrowing margins are razor-thin and any advantage enjoyed by a particular banking sector can make a big difference.

The complaint also mentions

the state banks of Lower Saxony, Berlin, Schleswig-Holstein, Hamburg and Bavaria. The transfer of funds to these Landesbanks had been made "without the consideration usual in the market", it says, and was thus state aid under European law.

In a speech in 1995, Mr Van Miert said: "It is of fundamental importance that all banks may enter into competition under the same conditions... state guarantees

which are neither limited in time nor in amount, and which are granted to public credit institutions like Landesbanks and Sparkassen [savings banks] can create a comparative advantage with respect to the banks' activities on the financial markets."

The bankers' association

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The complaint also mentions

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IN BRIEF
Apple to revalue system by 19%

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COMPANIES AND FINANCE: EUROPE

Metallgesellschaft expects further rise

By Andrew Fisher
in Frankfurt

Metallgesellschaft, the German industrial and trading company, expects a further rise in profits in the financial year to September 30 after the 70 per cent rise in its pre-tax result to DM282m (\$178m) achieved in 1996. Mr Kajo Neukirchen, chairman, said yesterday.

He also said the company, which nearly collapsed three years ago after heavy losses on US oil futures trading, intended to seek further acquisitions in its main sectors and was aiming for a return on equity of 14 per cent after the medium term after 9 per cent last year.

The company's shares rose 3 per cent yesterday, or by DM1, to DM33.80. In the last six months, they have gained about 35 per cent.

The group was now "logically structured and financially sound," Mr Neukirchen said. "Hence it is strong enough to make sizeable acquisitions." Metallgesellschaft last month made

an offer to buy effective control of Agiv, the loss-making industrial company, from BHF-Bank.

Mr Neukirchen declined to give more details about the agreed purchase of the 49.99 per cent stake in Agiv. But he said the deal would strengthen Metallgesellschaft's plant engineering and contracting division, speed up the development of the building technology business and add new activities in instrumentation and control technology.

Metallgesellschaft's first-quarter profits this year rose by 19 per cent to DM26.7m before tax, but Mr Neukirchen said it was not possible to extrapolate the full year's result because profits from industrial plant contracts often came later in the year. First-quarter sales totalled DM3.8bn, a 12 per cent increase.

Trading activities produced a lower pre-tax figure of DM3.5m against DM5.5m partly as a result of economic weakness and turbulence on the London copper market.

Performance, he said, Dynamit Nobel, the chemicals division, should achieve a further rise in profitability.

Elaborating on the 1996 result, partially announced in November, Mr Neukirchen said group net income was 80 per cent higher at DM220m.

On the industrial plant side, the Lurgi subsidiary raised pre-tax profits from DM13m to DM127m and Lentjes improved from DM22m to DM48m.

Dynamit Nobel lifted its pre-tax result from DM14m to DM19m. Profits of the building technology division, still in the start-up phase, rose to DM42m from DM35m, while financial services made a pre-tax profit of DM25.4m down from DM28.3m - the Metallbank subsidiary has since been sold to Schmid-Bank.

Trading activities produced a lower pre-tax figure of DM3.5m against DM5.5m partly as a result of economic weakness and turbulence on the London copper market.



Kajo Neukirchen: group intended to seek further acquisitions

EUROPEAN NEWS DIGEST

Credito Italiano profits rise 30%

Credito Italiano, the privatised Italian bank, yesterday said net profits for 1996 rose by about 30 per cent to more than L250m (\$155m). This performance came in spite of the continued high incidence of write-downs on loans and long-term investments. The bank also said its preliminary 1996 results showed a 30 per cent rise in gross operating earnings to about L1.06bn. These figures reflected both the increase in service commissions and cost containment that included 600 staff cuts. Direct customer cash deposits reached L50,000bn out of total cash deposits of about L200,000bn. Bank loans rose 8 per cent to L72,000bn, of which L41,000bn involved loans to industry. Net bad debts fell from L1.21bn to L1.182bn.

Paul Bettis, Milan

Iberia back in black at Pta2.7bn

Iberia, the Spanish state-owned airline which is seeking an international commercial ally, showed a net profit of Pta2.7bn (\$19m) last year, its first positive result since 1988, according to provisional estimates from the company. The profit compared with a loss of Pta44.92m the previous year. It followed European Commission authorisation in late 1995 for a Pta5.7bn injection of capital from the Spanish government. The aid plan was pegged to divestment of Iberia holdings in Latin American airlines. Under the deal, a further Pta20bn may be pumped into Iberia this year.

Operating profits improved from Pta25bn to Pta34bn, after emerging from loss in 1994. Operating turnover was up from Pta450.8m to Pta477bn, it said. The group showed provisional net earnings of Pta3.4bn on sales up 5 per cent at Pta556.6bn. That covers Spanish domestic and charter subsidiaries but not its remaining Latin American interests, which include 45 per cent in Viasa, the troubled Venezuelan carrier.

David White, Madrid

Madrid probes 'manipulation'

The Comisión Nacional del Mercado de Valores, Spain's stock market regulator, said on Friday it had investigated alleged share manipulation by the Spanish units of Banque Paribas, of France, and Crédit Suisse Financial Products, of the UK, and had started proceedings which could lead to stiff fines for both institutions.

The regulator's action follows an inquiry into the sudden collapse on December 27 1995 of the Ibex-30 index, which represents Spain's most traded stocks. The two institutions were investigated because of their alleged involvement in a swap operation with a fund managed by a leading Spanish bank that was backed by an Ibex index futures contract. The two institutions face maximum fines equal to 5 per cent of the customer funds that they manage.

Tom Burns, Madrid

Danone buys into Strauss

Danone, the French food group, has bought 20 per cent of the dairy operations of Strauss, of Israel. Industry sources said the stake cost around \$55m. Strauss declined to comment. Mr Frank Riboud, Danone chairman, said: "We are not very strong in this part of the world and we really hope Israel will help change that." He said the agreement was the prelude to a deeper bilateral co-operation. The deal excludes Strauss's ice-cream and cheese companies, which are 50 per cent owned by Unilever, the Anglo-Dutch food group.

APX News, Tel Aviv

Philipp Holzmann breaks even

Philipp Holzmann, Germany's largest construction company, broke even in 1996 after a net loss of DM443m a year earlier. The latest figure includes DM16m (\$61m) in costs from write-downs on investments, valuation adjustments, operating losses and provisions. Also included are the proceeds from the sale of about 4,000 apartments, mostly in Bonn and Berlin.

Sarah Althaus, Frankfurt

Philips appoints M&A man

Philips, Europe's biggest consumer electronics group, is to strengthen the team reshaping its activities worldwide by appointing a merchant banker from Crédit Suisse First Boston to a high-level financial post. Mr Ivo Lurink, head of CSFB's Prague operations, will join in March as senior director and head of mergers and acquisitions.

Vincent Boland, Prague and Gordon Crabb, Amsterdam

C&W pull-out injects realism

Senior executives from a number of companies planning to attack the soon-to-be-liberalised German telecommunications market met recently to compare strategies. Each put forward a view of the share of the DM90bn (\$48.5bn) their organisation expected to win. One executive at the meeting noted cynically: "Their combined estimates exceeded Deutsche Telekom's entire 1996 revenues [about DM63bn]."

Unrealistic ambitions of this sort are common among new entrants to an unfamiliar market. The expected withdrawal of Cable and Wireless, of the UK, from a planned three-way tie-up with the German utilities Veba and RWE, however, may indicate that a new realism is taking hold.

There have been a rash of mergers and strategic alliances over the past few years in anticipation of the opening of the European market to full competition in 1998; the C&W move may prove a catalyst for other companies to reassess their European strategies.

There are three main reasons for C&W's decision to abandon the German alliance.

First, the group has developed a new global strategy, with Cable and Wireless Communications, its recently created UK subsidiary, at its centre. C&W combines Mercury Communications, the C&W subsid-

iary that is British Telecommunications' chief competitor in the UK, with three UK-based cable operators: Nynex CableComs, Videocon and Bell CableMedia.

This new strategy follows the appointment as chief executive last year of Mr Richard Brown, the US manager who is already building a reputation in the UK for innovative decision-taking.

One analyst said yesterday: "Like most American chief executives, Richard Brown likes to shake things up and build shareholder value."

"C&W may have interests in dozens of different territories, but he will concentrate on the five he really cares about – like the US and Hong Kong – and attempt to build C&W into a substantial company."

Most of C&W's profits come from its majority share in Hongkong Telecom, one of Mr Brown's priorities is to protect the interests of C&W shareholders during the transition from UK to Chinese ownership this year.

The rules of the game, furthermore, remain uncertain. It has become clear in recent months that the liberalisation of the German telecoms market on January 1 next

will not be the cue for a rapid transformation. Deutsche Telekom's would-be rivals are at an early stage of development – even VebaCom is yet to complete its network.

More important, there are significant regulatory questions to be resolved and basic issues, such as the fees Deutsche Telekom will be able to charge rivals for connection to its network, have not been settled and are likely to provoke rows.

The federal post and telecommunications ministry has not decided the shape of a proposed new regulatory authority. Many would-be entrants into the market fear the creation of a politically-driven agency that will favour the interests of Deutsche Telekom.

The slow pace set by the ministry is seen as a bad omen by many would-be investors.

Veba and RWE, however, were insisting last night that their joint venture would go ahead, with or without C&W. They are now talking to US operators.

Veba said: "What is important is that the joint venture is not affected." As cash-rich German utilities, some argue they would be better placed without C&W for the long haul likely to be necessary for success.

Alan Cane,
Nicholas Denton
and Ralph Atkins

Koninklijke PTT Nederland NV

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Notice of Early Redemption

Tokai Bank Nederland N.V.

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Floating to Fixed Rate Guaranteed Notes due 2004

NOTICE IS HEREBY GIVEN THAT THE ISSUER SHALL REDEEM THE NOTES IN ACCORDANCE WITH CONDITION (b)(1) OF THE TERMS AND CONDITIONS OF THE NOTES AT THEIR PRINCIPAL AMOUNT ON THE NEXT INTEREST PAYMENT DATE, 11TH MARCH 1997, WHEN INTEREST ON THE NOTES WILL CEASE TO ACCRUE.

REPAYMENT OF PRINCIPAL WILL BE MADE UPON PRESENTATION AND SURRENDER OF THE NOTES, WITH ALL UNMAIDEN COUPONS ATTACHED, AT THE OFFICES OF ANY OF THE PAYING AGENTS MENTIONED THEREIN.

ACCrued interest due 11th March 1997, will be paid in the normal manner on or after that date against presentation of Coupon No. 6.

The Tokai Bank, Limited,
London Branch
as Principal Paying Agent

4th February 1997.

The Financial Times plans to publish a Survey on

Cayman Islands

on Tuesday, March 18

Political stability in a region often overtaken by disorder has allowed the Cayman Islands to establish a reputation as a leading holiday resort and one of the world's leading offshore financial services centres. Although expansion of tourism has slowed, this has not reduced the British colony's ability to offer natives and a significant number of non-Caymanian residents a standard of living and a quality of life much higher than that of other parts of the region. The survey will look at the island's economy, politics, financial services, tourism and more.

For more information on advertising opportunities in this survey, please contact:

Michael Geach in New York: Tel: (212) 688-6900 Fax: (212) 688-8229 or

Robert Jagger representative for Cayman Islands and The Bahamas

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FT Surveys

ito Italiano
is rise 30%

The privatised Italian bank Ito Italiano has risen by about 30 per cent. This performance came on the back of write-downs on bad debts. The bank also said its net assets rose by a 30 per cent rate in gross terms to €1.1 billion. These figures reflect service commissions and cost savings from staff cuts. Current customers can withdraw 20 per cent of total cash deposits at their involved loans to industry. Total net assets rose by 14.1 billion.

Rock in black at Pta21

A state-owned airline which is set to be privatised next year has shown a net profit of 1.1 billion. The airline also said its net assets rose by a 30 per cent rate in gross terms to €1.1 billion. These figures reflect service commissions and cost savings from staff cuts. Current customers can withdraw 20 per cent of total cash deposits at their involved loans to industry. Total net assets rose by 14.1 billion.

Alitalia, Air France in accord

Alitalia, the Italian flag-carrier, said yesterday it had reached a preliminary agreement with Air France on code sharing and space reservations. The deal is expected to take effect on April 1. The airlines will share codes and bookings mainly flights to and from Venice, Bologna, Turin and Paris.

The companies would also put on extra flights between French and Italian regional cities. Alitalia said, Under the agreement the airlines will maintain "independent commercial policies and operating costs". The airlines also plan to "explore and optimise all possible synergies between the companies".

AFX News, Rome

Carlson probes 'manipulation'

Swissair, Del Monte and Valero, Spanish regional airline and Spain's largest insurance company, have announced a joint venture to develop Spanish food and beverage markets. The two companies will form a new company, called Spanish Food and Beverage, which will be headquartered in Madrid. The new company will be owned by 50 per cent each by the two partners.

AFX News, Rome

Carlson plans card link-ups

Carlson Wagonits Travel, the joint venture business travel network owned by Carlson of the US and Accor of France, plans to announce partnerships with a series of card companies across Europe in the next few months.

The group will form alliances – principally with MasterCard – to offer its clients branded 30-day charge cards as part of its strategy to expand business. The details emerged after Accor and Carlson signed on Friday the formal 50-50 partnership, two years ahead of their original schedule. The companies said they planned to increase activity by 10 per cent a year, double profits within three years and accelerate international expansion, particularly in Asia. Carlson Wagonits Travel said sales for 1997 would be near \$3bn. *Andrew Jack, Paris*

Solidere upbeat after 81% rise

Solidere, the company entrusted with rebuilding Beirut's war-torn commercial district, yesterday reported net profits up 81 per cent last year, from \$32.3m in 1995 to \$58.2m. Unaudited figures show Solidere's revenues up 70 per cent at \$74.2m, after \$43.5m the previous year.

Solidere said total assets rose to \$1.77bn in 1996 from \$1.7bn in 1995. Total shareholders' equity rose from \$1.67bn in 1995 to \$1.72bn last year. Solidere's directors said the 1996 financial results "demonstrate that the company has achieved its business plan objectives for the year and in fact exceeded its revenue projections as a result of strong land sales in the BCD [Beirut Central District]".

AP-DJ, Beirut

Holzmann breaks

German Holzmann, the largest manufacturer of industrial valves, has sold its 50 per cent stake in its joint venture with the US-based Dresser Industries to the US-based Dresser Industries. The sale was made to the US-based Dresser Industries.

AFX News, Paris

Knorr-Bremse ahead 13%

Knorr-Bremse, the German company which is the world's largest maker of railway brakes, said net income for 1996 was DM42m (\$25.8m), a 13 per cent increase on the DM37m recorded for 1995. Sales were flat at DM1.45bn in 1995. Mr Heinz Hermann Thiele, chairman and owner of the Munich-based company, said he hoped sales would increase by about 6 per cent in 1997, with a comparable rise in profits, although trading conditions remained "tough". As well as selling brake systems to the world's main makers of railway rolling stock, Knorr has a joint venture with AlliedSignal, the US automotive parts maker which is the world's second biggest supplier of brake systems for trucks. *Peter Marsh, Paris*

Italy rail shake-up complete

The industrial rationalisation of production in Italy's rail and mass transit system has been completed with Breda, the rolling stock manufacturer, being absorbed into the state-controlled Finmeccanica holding for L3.62bn (\$23.7m). Breda was part of Stinim, the state industrial holding which collapsed in 1992.

This was one of the last operations relating to the winding-up of Stinim, which has cost the taxpayer more than L15,000bn. In addition to the purchase price, Finmeccanica will assume L180m of Breda-related debt.

From the outset of Stinim's collapse, Finmeccanica was anxious to obtain Breda. Its activities offered the missing link in an otherwise integrated presence in the mass transit and rail sector since Finmeccanica – through its Ansaldo subsidiary – already had a big presence in the metropolitan system, with a strong international position in signalling and traffic control systems. Breda this year is expected to have a turnover of L900m, with the prospect of ending a run of losses. *Robert Graham, Rome*

Coca-Cola in S Africa push

Coca-Cola and its seven South African bottling partners will invest more than R1bn (\$219m) over the next five years to expand marketing and distribution. Coca-Cola said it hoped by 2003 to double its sales in the South African soft drink market, worth R6.4bn rand a year.

Coca-Cola itself is to contribute a "significant" portion of the new investment, but refused to disclose the amount. It said the investment would be used primarily for purchasing coolers and other equipment and support systems that will significantly enhance drink's availability, particularly in the country's emerging markets. Coca-Cola has annual sales of R4.8bn in South Africa, with 8,000 roadside shops in black townships accounting for more than R1bn of the turnover.

AFX News, Johannesburg

INTERNATIONAL NEWS DIGEST**AssiDomän in Slovak move**

AssiDomän, the Swedish forestry company, has reached agreement with shareholders to buy a majority of shares in JCF Sturovo, a paper and paperboard company in the Slovak Republic. AssiDomän said it had also made a public offer for the remaining outstanding shares, with a view to buying at least 90 per cent of the company.

If said JCF Sturovo, located on the Danube near the Hungarian border, was a profitable company with strong market positions and an annual turnover of about \$21.5m. JCF Sturovo, with 2,500 staff, makes SC-fluting (the middle layer in corrugated cardboard), corrugated board, carton board and asphalt-impregnated paper products. The fluting mill has an annual capacity of 180,000 tonnes, with 75 per cent of output exported to the Czech Republic, Germany, Italy, Spain and Turkey among others.

JCF Sturovo gives AssiDomän very interesting opportunities for development on the rapidly growing corrugated packaging markets in central and eastern Europe, Mr Leopold Ahlgren, AssiDomän chief executive, said yesterday. "The company also fits in very well with our other investments in the region."

Reuter, Stockholm

Tubacex has recovered from its crisis to become a leading performer on Spain's stock market

Barely three years after emerging from receivership, a steel tube manufacturer in the Basque country has become one of Spain's star stock market performers.

In the second half of last year, Tubacex made the biggest rise on the Madrid market with a 33.7 per cent gain. In January last year, the shares traded at a low of Pta138. This month they reached double that level, frequently ranking among the most actively traded stocks.

"We were dead," says Mr Alvaro Videgain, the 45-year-old chairman, recalling the disastrous circumstances of five years ago, when everything went wrong for Tubacex – a market slump, low prices, an overvalued peseta and a misconceived attempt at diversification.

The Brussels verdict followed a three-year campaign led by Sterling Tubes, a UK subsidiary of Sweden's Sandvik engineering group, one of Tubacex's three European competitors in the restricted field of seamless stainless steel tubes.

The Commission upheld part of the complaint, arguing that a 9 per cent loan from Spain's wage guarantee fund was below market rates, and disallowing the rescheduling of Tubacex's social security debts.

But it rejected other charges, including an allegation that the Basque regional government paid an inflated price for land it bought from Tubacex further up the valley at Amurrio, next to the group's

with Pta2bn at the time of receivership.

Mr Videgain says consolidated net profits for last year will be a record Pta2bn, an increase of about 85 per cent, on sales of Pta25bn.

The company's sense of triumph makes up for reverses suffered in the course of the year. Prices were less favourable than the previous year, and overall sales were down. The European Commission decided that part of the company's financial arrangements with the Spanish authorities were illegal add. Plans for an ambitious takeover were aborted at the last minute.

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Mr Videgain says he is puzzled by the outcome, but reckons the cost of meeting Brussels' requirements will not exceed Pta50m-Pta80m.

Tubacex had started issuing bonds when it pulled out four months later. Under a gentlemen's agreement, it has declined to explain why. But it is believed to have been dissatisfied with its access to financial information. Mecanica de la Peña has since been taken under the wing of the Norwegian Kværner group.

The take-over would almost

have doubled group sales, increasing capital by about 7 per cent. It was to be financed mostly through a Pta1.5bn convertible bond.

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Under its take-over plan, Tubacex envisaged dividend

payments, the first since 1990. But it decided instead to remunerate shareholders through reducing the nominal share value from Pta100 to Pta33. It plans to repeat this measure this year and next, to about Pta75-Pta80. The next dividend – only the third in Tubacex's history – is set to be paid in 1999.

Tubacex cut about 400 jobs in the reorganisation. It now employs about 840, including a Pennsylvania subsidiary, Salem Tube, acquired in 1995. Having moved into stainless steel tubes in 1988, it now claims about 12 per cent of the world market.

Mr Videgain does not expect a repeat of last year's profit surge, but hopes to maintain the earnings level this year. He says the company is "reflecting" on the acquisition of more production capacity abroad.

The company still has on its books some of the products of his predecessor's ill-starred diversification policy – including property interests in Houston and a collection of art works. About Pta1.5bn was spent on paintings, with the idea that they would be an anti-cyclical investment. Tubacex still owns about 80, including a Delacroix, two Corots, a Géricault and some modern Americans. Mr Videgain says he intends to sell them, but the need is now less urgent.

David White

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David White

*In mergers and acquisitions***Morgan means more powerful brand alliances***More value for both buyers and sellers*

Gillette's merger with Duracell is one of the largest consumer product transactions ever – and one with advantages for everyone. Gillette adds a leading brand. Duracell will enjoy unmatched distribution overseas. And both sets of shareholders will receive significant benefits – more than \$7 billion in enhanced value between the announcement of the merger last September and the close of business at year-end.

To achieve a transaction this well constructed you need more objective advice, more expert analysis, more thorough execution. That's why Gillette appointed J.P. Morgan as its advisor, and why so many other successful corporations do, too.

They know we deliver more.

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COMPANIES AND FINANCE: THE AMERICAS

Petrobrás meets forecasts with 17% rise

By Geoff Dyer in São Paulo

Petrobrás, the state-owned oil and gas group which is the largest company in Brazil in terms of sales, increased net profits in 1996 by 17 per cent from R\$57bn to R\$64bn (\$33bn).

The group, which is set to lose its monopoly in the domestic oil industry, said turnover in 1996 had advanced 27 per cent to R\$23.5bn, against R\$18.5bn the previous year.

Analysts said the profit figures were in line with expectations, but were surprised at a R\$2.05bn

increase in the group's surplus with the National Fuels Department (DNC), which could have a negative impact on cash flow.

The account with the DNC, which is now R\$7.7bn in credit, reflects the difference between costs incurred by Petrobrás in producing oil derivatives and the revenues received at prices set by the DNC. The petrol account stood at R\$3.45bn at the end of December and the alcohol account at R\$4.24bn.

The Brazilian Congress is currently examining a bill to deregulate

late the oil industry, after Congress voted last year to end Petrobrás' monopoly. Under the terms of the bill, imports of petrol will be liberalised after three years and prices will be freed.

Petrobrás is likely to have free access to reserves already discovered and will have greater freedom to enter into joint ventures with foreign partners on specific projects.

The government has consistently denied the claims of some deputies that the deregulation amounts to a back-door privatisation. Mr Rail-

mundo Brito, energy minister, said last week that Petrobrás' principal activities would not be sold as a result of deregulation.

Petrobrás said it invested a total of R\$3.1bn last year, more than half of which went on exploration and production. Petrol production increased 13 per cent, largely thanks to activities in the Campos Basin oil field.

The group plans to spend \$22bn over the next five years in order to lift its domestic oil output from the current level of about 780,000 barrels a day to 1.47m barrels a day by the end of the decade.

Of the group's total profits, R\$214m came from Petrobrás' own activities and R\$450m from its subsidiaries, which include its distribution network, overseas operations and petrochemicals businesses.

Net assets were R\$20bn at the end of December, while the return on assets in 1996 was 3.4 per cent.

The board is recommending dividend payments of R\$6 per 1,000 preference shares, and R\$1.41 per 1,000 ordinary shares. Earnings per 1,000 shares were R\$6.12.

US carmakers keep a wary eye on Republic

The group's frenzied buying spree has thrown down a challenge that Detroit cannot ignore

Wayne Huizenga, one of the best-known entrepreneurs in the US, yesterday capped a frenetic start to 1997 with his 12th acquisition of the year, most of which have come in the car business.

That blistering rate of growth has forced Detroit to sit up and take note, leading to renewed attention to the fragmented and expensive sales network which serves the world's biggest automotive market.

Yesterday's \$55m acquisition of a private car dealer in Florida takes to six the number of dealers that Mr Huizenga's Republic Industries has bought so far this year, for a total of about \$400m in Republic stock.

Republic also agreed last month to pay \$600m for National Car Rental and assume \$1.7bn of the company's debt, just months after agreeing to buy Alamo, another car rental company.

January also brought small acquisitions of waste management companies and home security monitoring operations - businesses which Wall Street expects will contribute \$550m and \$150m, respectively, to

Republic's revenues this year. Add in the sale of \$500m of new equity and the completion of the \$650m purchase of AutoNation, a fast-growing operator of used car superstores, and it has been quite a year for the Florida-based entrepreneur.

There is order behind this apparent chaos, says Mr

Republic plans to have more than 80 superstores by 2000

Michael Karsner, Republic's chief financial officer. The waste management and security businesses, with high margins and strong cash flow, will provide the cash to support the expansion of AutoNation, he says.

Republic plans to add 13 more superstores this year, taking the total to 20, and will have more than 80 by 2000, Mr Karsner adds.

The combination of new car dealerships, used-car superstores and car rental companies also has a clear logic, according to Republic:



Wayne Huizenga: causing uproar in the car sales industry

allow him to acquire their dealers.

As Mr John Devine, Ford's chief financial officer, said last week: "Although the private entrepreneur is the backbone of the distribution business, we have to acknowledge that change is here and will accelerate."

The carmakers remain cautious about the impact Republic will have - and not just because the company's incursions have caused uproar among existing privately-held dealerships, which fear they will lose out.

Richard Waters

Lockheed to spin off 10 units into new grouping

By Christopher Parkes in Los Angeles

Lockheed Martin, the leading US defence and aerospace group, is to spin off 10 non-core businesses into an independent mini-conglomerate with annual revenues of \$550m and 4,900 employees.

Lehman Brothers Capital Partners, a division of the New York-based finance house, will own half the company, to be known as L3 Communications.

Lockheed will retain 35 per cent and the remainder is being purchased by two Lockheed executives. The value of the deal, which is expected by the end of March, was not disclosed.

The buy-out marks one of the earliest and biggest steps in the expected "clean-up" phase following consol-

idation of the US defence industry.

According to Mr Jon Kutler, president of Quarterdeck Investment Partners, a Los Angeles investment bank specialising in aerospace, dozens of spin-offs and sales are expected following a four-year period of mega-mergers which entered its closing stages recently with Boeing's takeover of McDonnell Douglas and Raytheon's purchase of Hughes Aircraft.

Mr Kutler said the industry's main objective will be restoring focus on core operations and using asset sales to pay down debt.

The businesses comprising L3 Communications were involved mainly in making high-technology products, while the parent group's long-term focus was on

major systems. Lockheed said yesterday. The move would allow the group to streamline operations further, it added.

Remaining operations formerly grouped with the spun-off assets will be integrated into Lockheed's electronics and information services divisions. Electronics revenues of \$3.3bn in 1995 would increase to almost \$5bn as a result, and information services annual sales would rise from \$4.5bn to more than \$7bn.

The management team at the new company will be led by Mr Frank Lanza and Mr Robert LaPenta, currently Lockheed group vice-presidents. Mr Lanza was president of Loral, acquired by Lockheed last year. Mr LaPenta was senior vice-president of Loral.

Mr Kutler said the spin-off would allow the group to focus on major systems. Lockheed said yesterday. The move would allow the group to streamline operations further, it added.

In December 1994, La Moderna paid \$300m for Agrow Seed, Agricorp's parent. Agrow Seed's vegetable seed division, which La Moderna is not selling, made about \$140m in sales last year.

Proceeds from the sale, which had been agreed in September of last year, will go to reduce La Moderna's high debt to equity ratio.

The company ended last year with debt to equity of about 140 per cent, a figure it expects to reduce to about 110 per cent as a result of the sale.

While most of La Moderna's agribusiness subsidiaries are focused on fruit and vegetable seeds, Agrow Agronomic, which had about

\$180m of sales in 1996, specialises in grain seeds.

In December 1994, La Moderna paid \$300m for Agrow Seed, Agricorp's parent. Agrow Seed's vegetable seed division, which La Moderna is not selling, made about \$140m in sales last year.

La Moderna's seed interests, grouped together in its Seminis subsidiary, account for about a fifth of the worldwide vegetable seed market.

Seminis' revenues are likely to fall from about \$560m for 1996 to \$400m in 1997. But it expects operating cash flow to stay at about \$70m, since the vegetable and fruit seed businesses have higher margins.

La Moderna expects total sales for 1996 to be \$1.6bn and operating cash flow to be \$280m.

The number of mergers and acquisitions involving foreign companies rose 25 per cent to 165 in 1996.

However, transactions involving only domestic companies nearly doubled to 163, suggesting that the Brazilian corporate sector is beginning to take a more aggressive attitude towards the changing economic situation.

The food, drink and tobacco sectors witnessed the most corporate activity with 38 deals, while Brazil's bloated banking industry saw 31 mergers or acquisitions last year, according to the report.

Geoff Dyer

Intel chief sees no slowdown

Mr Andrew Grove, chief executive of Intel, the US semiconductor manufacturer, said he saw no reason to expect a slowdown in growth for the semiconductor industry or his company, the world's biggest maker of computer chips.

"Our growth basically depends on the growth of the industry," Mr Grove told a news conference at the World Economic Forum in Davos, Switzerland. "The growth of the industry has... for many years been in the high teens [as a percentage] and I really see no reason in the long-term or the near-term for that number to be different."

Intel last month reported fourth-quarter profits more than doubled to \$1.9bn - its seventh consecutive year of record revenues and earnings.

Reuter, Davos

Inco in new Voisey's Bay find

Inco, the Canadian mining group, has made a new find that will expand reserves at its Voisey's Bay nickel-copper-cobalt property in Labrador, previously put at 150 million tonnes of nickel-copper-cobalt ore. The find lies beneath the western ore zone, one of three making up the Voisey's Bay deposit. Initial drilling revealed grades ranging from 1.2 per cent to 2.8 per cent nickel, similar to those in the main Ovoid zone, Inco said.

Robert Gibbons, Montreal

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AMERICAS NEW DIGEST

Souza Cruz posts 3% fall for year

Souza Cruz, the Brazilian arm of BAT, the UK tobacco and financial services company, yesterday announced a 3 per cent drop in net profits in 1996 despite a slight rise in sales. The group recorded net profits of R\$203.8m (US\$195m), against R\$208.7m after incurring a loss of R\$41m on the sale in May of a 26 per cent stake in Aracruz Celulose, one of Brazil's largest cellulose companies, to Anglo American of South Africa for US\$220m.

The sale formed part of a programme of disposals of non-core assets which began in 1992. Operating profits at Souza Cruz, which dominates the Brazilian cigarette market, increased 52 per cent to R\$238.9m (US\$186.7m).

Total sales in 1996 were slightly higher at R\$6.23bn (R\$6.14bn), despite a 1 per cent drop in volume of cigarettes sold in Brazil from 98.67bn to 97.58bn units. The group said this was less than the decline in the Brazilian market as a whole, and that its market share had risen from 82.6 per cent to 83.3 per cent.

The group's exports, largely to western Europe and the rest of Latin America, made up for this shortfall, rising 9 per cent to 20.3bn units. Souza Cruz said that investment reached US\$147m last year, primarily on a new tobacco processing plant in Santa Cruz do Sul, Rio Grande do Sul state. Earnings per share were R\$0.77.

Geoff Dyer, São Paulo

Write-off puts Elan in red

Elan, the Ireland-based drug company which completed a \$630m merger with Athens Neurosciences of California last year, reported a 33 per cent increase in net income to \$31.2m for the third quarter to December 31, up from \$23.4m in the same period in 1995. This was before taking account of a one-time charge of \$17.5m related mainly to the write-off of goodwill connected with the consolidation of Advanced Therapeutic Systems, one of its off-balance sheet research vehicles. After charges, Elan reported a loss for the period of \$144.2m.

Revenues were up 52 per cent at \$34.6m, against \$35.7m in 1995. Product sales, which include contract manufacturing for clients and sales of Elan marketed products, more than doubled to \$47m. Research revenues were up 112 per cent to \$15.3m, while royalty and fee income was down 17 per cent to \$22.3m.

The consolidation of Athena, with a one off charge in the second quarter of \$4.6m, resulted in increased costs in the period to December. Expenses were up 52 per cent to \$53.5m, against \$35.3m. Pre-tax profit before charges, for the nine-month period was up 40 per cent to \$8.1m, against \$5.8m in 1995. John Murray Brown, Dublin

Brazilian M&A activity surges

Mergers and acquisitions in Brazil increased 53 per cent in 1996, according to a report by accountancy firm KPMG, which provides further evidence of the widespread restructuring of the Brazilian economy.

The total number of transactions last year rose from 214 to 328. This compares with 58 takeovers recorded in 1992 when the report was first produced, at a time when the Brazilian government was just starting to liberalise its economy.

The number of mergers and acquisitions involving foreign companies rose 25 per cent to 165 in 1996. However, transactions involving only domestic companies nearly doubled to 163, suggesting that the Brazilian corporate sector is beginning to take a more aggressive attitude towards the changing economic situation.

The food, drink and tobacco sectors witnessed the most corporate activity with 38 deals, while Brazil's bloated banking industry saw 31 mergers or acquisitions last year, according to the report.

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Mr Andrew Grove, chief executive of Intel, the US semiconductor manufacturer, said he saw

NEW DIGEST

Sa Cruz posts fall for year

The Brazilian arm of BAT, the UK tobacco services company, yesterday announced a net profit in 1996 despite a sharp drop recorded in profits of R\$100m (£30m) after incurring a loss of R\$15m in May of a 12 per cent stake in one of Brazil's largest cigarette companies, Anglo American of South Africa Ltd.

Part of a programme of disposals which began in 1992, operating costs, which dominate the Brazilian cigarette market, fell 20 per cent in 1996 from 1995 levels, which were slightly higher at R\$100m. A 1 per cent drop in volume of sales in Brazil took its total to 6.5m units, less than the decline in the British market, and that its market share had declined to 45.3 per cent.

Exports, largely to western Europe and America, made up for the shortfall, says Sa Cruz. Brian said that losses last year, primarily on a new factory in Santa Cruz, in Rio Grande do Sul, were R\$1.7m.

Geoff Dyer, Sa

Cut-off puts Elan in red

London-based drug company which competes with Astra in the United States of Canada reported a 10 per cent increase in net sales in the third quarter to December 31, up from the same period in 1995. This was before a one-time charge of \$100m related mainly to severance costs linked with the completion of the separation of its off-patent pharmaceuticals division. Elan reported net profit of \$44.2m, down from 1995's net profit of \$51.2m, against revenue sales which include contract manufacturing for clients and sales of Elan products under their own labels. Research and development costs rose 10 per cent to \$100m while royalty and licence fees fell 10 per cent to \$100m.

Elan's cash position, with a rise of 10 per cent in December, is expected to increase to £100m by the end of 1997, up from £80m at the time that the company was founded in London in 1995.

Australian M&A activity surges

Corporate takeovers in Australia increased 10 per cent in 1996, according to the latest figures from the Australian Securities Exchange. The value of deals in 1996 reached \$100bn, up from \$90bn in 1995. The top 10 deals in 1996 were recorded in the mining and resources sector, with the top 10 deals in 1995 in the financial services and retail sectors.

Bank chief sees no slowdown

John Currin, chairman of the Bank of New Zealand, said yesterday that the bank's earnings would be flat in 1997, despite a 10 per cent increase in net interest income. Mr Currin described the bank's performance as "solid" and said that the bank's earnings were up 10 per cent in 1996, with a 10 per cent increase in net interest income.

Bank chief sees no slowdown

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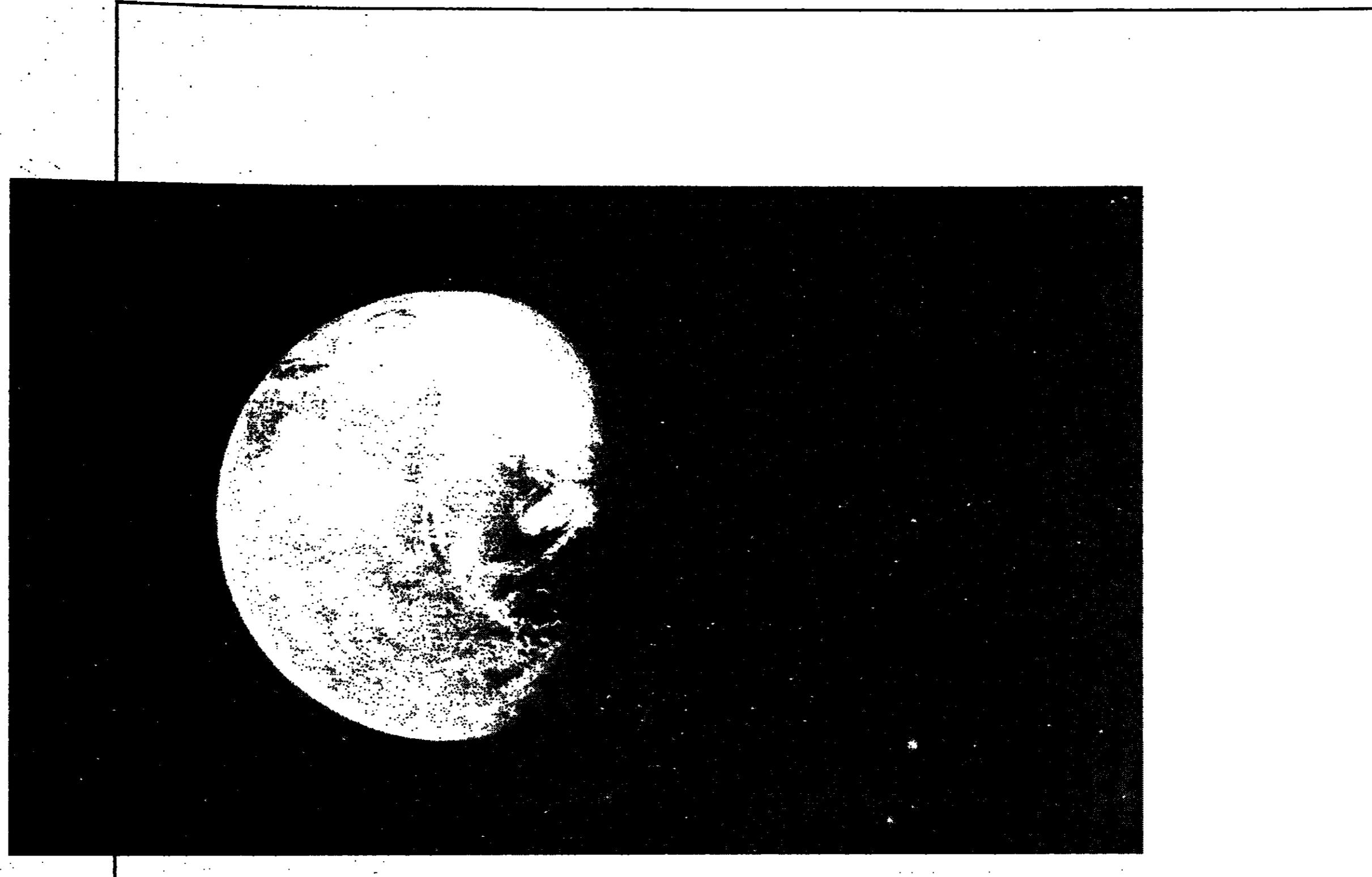
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Merrill Lynch on home improvement.

WHC

Westgate Holdings Co., Inc. Holdings

\$55,000,000

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When knowledge and insight help companies and countries achieve their goals, the world we call home improves in the process.

1996 was a year when global capitalism was unleashed on an unprecedented scale. A year when our coordinated presence in every key country and capital market proved a decisive advantage.

Merrill Lynch was able to see the forces of change and understand their impact on people's lives. To clients who entrusted us with their futures, we provided a fuller, multidimensional picture of breaking developments around the globe. As a result we were able to transform risk, seize opportunity and create value for them in every region, under any scenario.

We appreciate the opportunities our clients gave us in 1996. For when our clients prosper, so do their families, their businesses and their communities, raising living standards and aspirations for people everywhere.

Working together to help shape a better world makes a difference. The difference is Merrill Lynch.

Global Financial Institutions

Abbey National PLC Inaugural Preference Share Issue \$200,000,000	Banco Nacional de Mexico, S.A. Subordinated Exchangeable Capital Debentures \$326,000,000	First USA Paymentech acquired GENSAR Holdings Inc. \$170,000,000 Initial Public Offering and Add-ons \$379,000,000
AIM Management Group Inc. has agreed to merge with INVESCO PLC \$1,615,000,000	Banco Português de Investimento, S.A. acquired Banco de Fomento e Exterior Group \$1,380,000,000	Friends' Provident Life Office Eurosterling Bond Offering £215,000,000
American Re Corporation was acquired by Munich Reinsurance Company \$4,000,000,000	The Bank of New York Company, Inc. sold in AFL-CIO Union Privilege affinity credit card portfolio to Household International, Inc. \$3,975,000,000	HomeSide, Inc. Senior Secured Notes \$200,000,000 Bridge Loan \$90,000,000
Aseguradora Mexicana, S.A. was acquired by Seguros Comercial America, S.A. de C.V. \$128,000,000	Citibank Credit Card Master Trust I Asset-Backed Securities DM1,000,000,000	Household Finance Corporation and Household International, Inc. Euro Yen Bonds £15,000,000,000
Australia and New Zealand Banking Group, Limited Subordinated Notes \$499,000,000	Clayton, Dubilier & Rice, Inc. sold Van Kampen American Capital, Inc. to Morgan Stanley Group Inc. \$1,175,000,000	Kookmin Bank Global Depository Shares \$300,000,000
Banco Central Hispano European Preferred Shares \$450,000,000	CT Financial Services Inc. has agreed to sell First Federal Savings and Loan Association of Rochester to Marine Midland Bank, a subsidiary of HSBC Holdings plc	Mitsubishi Corporation Finance, plc Euro Yen Bonds £10,000,000,000
Banco Comercial Português Exchangable US Preferred Shares \$250,000,000	The Sakura Bank, Limited Series II Noncumulative Mandatory Convertible Preference Shares £150,000,000,000	The Sakura Bank, Limited Series II Noncumulative Mandatory Convertible Preference Shares £150,000,000,000
Banco Espírito Santo European Preferred Shares \$250,000,000	USF&G Corporation acquired Afianzadora Insurgentes Serfin, S.A. de C.V. from Grupo Financiero Serfin, S.A. \$65,000,000	USF&G Corporation acquired Afianzadora Insurgentes Serfin, S.A. de C.V. from Grupo Financiero Serfin, S.A. \$65,000,000

Health Care

Aetna Services Inc. Notes and Debentures \$1,393,000	Community Health Systems, Inc. was acquired by Forstmann Little & Co. \$1,265,000,000	Mariner Health Group Inc. Senior Subordinated Notes \$150,000,000	SmithKline Beecham PLC Preferred Stock \$750,000,000
DEAL OF THE YEAR			
Alza Corporation Convertible Subordinated Debentures \$500,000,000	Dur Pharmaceuticals, Inc. Common Stock \$319,000,000	Microdose Pharmaceuticals, Inc. Initial Public Offering \$40,000,000	U.S. Healthcare, Inc. was acquired by Aetna Life and Casualty Company \$8,772,000,000
Axogen Limited Units \$95,000,000	Elan Corporation, plc American Depository Shares \$100,000,000	OrNda HealthCorp has merged with Tenet Healthcare Corporation \$3,100,000,000	Waters Corporation Common Stock \$366,000,000
Bergen Brunswig Corporation has agreed to merge with IVAX Corporation \$1,650,000,000	FHP International Corporation has agreed to be acquired by PacificCare Health Systems, Inc. \$2,200,000,000	Pharmacia & Upjohn Global Common Stock \$2,000,000,000	DEAL OF THE YEAR
Beverly Enterprises, Inc. sold its MedView Services business to Value Health, Inc. \$57,500,000	Genesis Health Ventures, Inc. Common Stock \$211,000,000	The Procter & Gamble Company and F. Hoffman-La Roche Ltd advised with respect to the value of their partnership Procter-Syntex Health Products Company \$380,000,000	WellPoint Health Networks Inc. acquired the Group Life and Health subsidiary of Massachusetts Mutual Life Insurance Company \$1,230,000,000
Boston Scientific Corporation acquired Symbiosis Corporation from American Home Products Corporation \$153,000,000	HClA Inc. Common Stock \$345,000,000	Recapitalization \$1,230,000,000	Common Stock \$419,000,000
Caremark International Inc. was acquired by MedPartners/Millikin Inc. \$2,600,000,000	HealthPlan Services Corporation acquired Consolidated Group, Inc. \$62,000,000	Renal Treatment Centers, Inc. Convertible Subordinated Notes \$125,000,000	

Chemicals

Agricor Inc. Tender Offer for Viridian Inc. Debt \$392,506,000	Forstmann Little & Co. sold Thompson Minwax Holding Corporation to The Sherwin-Williams Company \$830,000,000	Hanson plc has spun off Millennium Chemicals Inc. \$1,900,000,000	Tessenderlo Chemie Equity Block Trade \$142,000,000
Aristech Chemical Corporation Notes \$150,000,000	Freedom Chemical Company Senior Subordinated Notes \$125,000,000	Henkel KGaA acquired the Novamax Technologies specialty chemical business of The Molson Companies Limited \$187,000,000	Zeneca Group PLC sold its Specialty Inks business to a unit of Dainippon Ink & Chemicals Inc. \$62,000,000
CBI Industries, Inc. was acquired by Praxair, Inc. \$2,300,000,000	DEKALB Genetics Corporation sold a 40% economic interest to Monsanto Company \$158,000,000	IMC Global Inc. STRYPES™ \$249,000,000	Zoltak Companies, Inc. Common Stock \$74,000,000
E.I. du Pont de Nemours and Company has agreed in principle to sell its 50% stake in its Nichlor joint venture to Olin Corporation Value not disclosed	W.R. Grace & Co. has effected by means of a "Morris Trust" structure the merger of National Medical Care, Inc. with Fresenius Medical Care AG \$4,600,000,000 sold its Dearborn water-treatment and process chemicals business to Betz Laboratories, Inc. \$632,000,000 has agreed to sell its Grace Cocom business to Archer Daniels Midland Company \$430,000,000 sold its Amicon separation sciences business to Millipore Corporation \$125,000,000	Praxair & Lambert United Inc. was acquired by The Sherwin-Williams Company \$482,000,000	Tri Polya Finance B.V. Guaranteed Secured Notes \$184,000,000

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Automotive

DEAL OF THE YEAR
Standard Federal
Bankorporation, Inc.
has agreed to be
acquired by
ASB AB (ABN Bank NV)
\$1,475,000,000

DEAL OF THE YEAR
State Bank of India
Global Depository
Program
\$1,400,000,000

Tempest Reinsurance
Company, Limited
has agreed by
ASB AB (ABN Bank NV)
\$1,400,000,000

Thai Farmers Bank
Public Company
Limited
Siam Square Bank
\$1,400,000,000

Trans-Dominion
Bank
has agreed by
ASB AB (ABN Bank NV)
\$1,400,000,000

WING Corporation
has agreed by
ASB AB (ABN Bank NV)
\$1,400,000,000

**Blue Bird Body
Company**
Syndicated Loans
\$255,000,000
Senior Subordinated
Notes
\$100,000,000

**Borg-Warner
Automotive, Inc.**
acquired the automotive
businesses of Coltec
Industries, Inc.
\$277,000,000
Common Stock
\$17,000,000

Dese, S.A. de C.V.
American Depository
Shares
\$79,000,000

**General Motors
Acceptance
Corporation**
Inaugural Samurai Bonds
\$36,000,000,000

**General Motors
Corporation**
restructured its holding
in Saab Automobile AB
through a capital
injection, a loan
conversion and the
structuring of an option
agreement with Investor
AB with regard to its
holding in Saab
Automobile AB
Value not disclosed

**Hayes Wheels
International Inc.**
has agreed to acquire
Lemmerz Holding
GmbH
\$365,000,000
Syndicated Loans
\$645,000,000

Larizza Industries, Inc.
was acquired by Collins
& Aikman Corporation
\$174,000,000

**Lobdell Emery
Corporation**
was acquired by The
Oxford Investment
Group
Value not disclosed

**Prince Holding
Corporation**
sold its Prince
Automotive subsidiary to
Johnson Controls, Inc.
\$1,350,000,000

The Pullman Company
was acquired by
Tenneco Inc.
\$328,000,000

AEA Investors Inc.
acquired the Mettler-
Toledo division of
Ciba Geigy AG
\$770,000,000
Syndicated Loans
\$387,000,000
Senior Subordinated
Notes
\$135,000,000
Bridge Loan
\$135,000,000

Burnfield PLC
defense with respect to
the unsolicited offer
received from Fairey
Group plc
\$101,000,000

**Cable Systems
International, Inc.**
Syndicated Loans
\$170,000,000

Caterpillar, Inc.
acquired the MaK
Maschinenbau GmbH
unit of Fried. Krupp AG
Hoesch-Krupp
Value not disclosed
acquired an interest in
F.G. Wilson from
Emerson Electric
Company
Value not disclosed

Danaher Corporation
acquired Acme-Cleveland
Corporation
\$201,000,000
Common Stock
\$77,000,000

**E.I. Holdings
Corporation**
was acquired by
Assa Abloy AB
\$242,700,000

**Elesa Bailey Process
Automation**
(a company of the
Finmeccanica Group)
acquired Hartmann &
Braun from
Mannesmann AG
\$718,000,000
Syndicated Loans
\$950,000,000
Convertible TOPS™
\$200,000,000

**General Signal
Corporation**
sold its L&N Products
unit to
Honeywell Inc.
Value not disclosed

"Holderbank"
Financière Glarus AG
through its subsidiary
"Holdercam" Brasil S.A.
acquired Companhia de
Cimento Portland
Paraiso
Value not disclosed
LYONS™
Sfr250,000,000

**Ingersoll-Rand
Company**
sold its Pulp Machinery
Division to
Harmschfeier
Industries, Inc.
\$125,000,000
sold its Process
Equipment Division to
Gencor Industries, Inc.
\$72,000,000
has agreed to sell its
Clark-Hurth
Components unit to
Dana Corporation
Value not disclosed

KCI Konecranes
Initial Public Offering
and Add-on Shares
\$223,000,000

**Kawasaki Heavy
Industries**
Common Stock
\$6,312,000,000

**Manchester Tank &
Equipment Co.**
was acquired by
AEA Investors Inc.
Value not disclosed

Rafineria Gdanska
Private Placement
\$100,000,000

**Altos Hornos de
Mexico**
Discount Convertible
Notes
\$73,000,000

AMCOR Limited
PRIDES™
\$230,000,000

**CasTech Aluminum
Group Inc.**
was acquired by
Commonwealth
Aluminum Corporation
\$50,000,000

**Fletcher Challenge
Capital Canada Inc.**
Variable Notes
\$449,000,000

**Haynes
International, Inc.**
Senior Notes
\$137,000,000

IMCO Recycling Inc.
acquired IMSAMET, Inc.
from EnviroSource, Inc.
\$58,000,000
Syndicated Loans
\$125,000,000

International Paper
Senior Debt
\$175,000,000

**Kaiser Aluminum &
Chemical Co.**
Senior Notes
\$226,000,000

Places Dome Inc.
COPES™
\$299,000,000

**Plum Creek Timber
Company, L.P.**
acquired the mid-south
forests and solid-
wood conversion facilities
of Riverwood
International Corporation
\$540,000,000

Limited Partnership
Interests
\$153,000,000

QUNO Corporation
was acquired by
Donehue Inc.
\$51,300,000,000

**Reynolds Metals
Company**
has agreed to sell its
residential construction
operations to
AmeriMark Inc.
Value not disclosed

Sanifill, Inc.
was acquired by USA
Waste Services, Inc.
\$1,800,000,000

Steel Authority of India
Global Depository
Receipts
\$125,000,000

Valmet Corporation
Global Common Stock
\$378,000,000

WMC, Ltd.
Senior Notes
\$398,000,000

**Western Waste
Industries**
merged with USA Waste
Services, Inc.
\$700,000,000

Capital Goods

Information Technology

**ASAP Software
Express Inc.**
was acquired by
Corporate Express, Inc.
Value not disclosed

AT&T Corporation
sold ImagiNation
Network Inc. to
America Online, Inc.
Value not disclosed

Augat Inc.
was acquired by Thomas
& Betts Corporation
\$550,000,000

CSC Enterprises
Senior Notes
\$150,000,000

BREAKTHROUGH DEAL
Cisco Systems, Inc.
acquired StrataCom, Inc.
\$4,666,000,000

acquired
Telebit Corporation
\$197,100,000

acquired
TGV Software, Inc.
\$119,000,000

BREAKTHROUGH DEAL
**Electronic Data
Systems Corporation**
Secondary Sale of
Common Stock by
General Motor Special
Hourly Employees
Pension Trust
\$1,072,000,000

**General Motors
Corporation**
split off Electronic Data
Systems Corporation to
its Class E Common
Stock holders
\$27,720,000,000

**Hewlett-Packard
Finance Company**
Euro Yen Bonds
\$10,000,000,000

**Hyundai Electronics
Industries Co., Ltd.**
through Hyundai
Electronics America
acquired the 60.2% of
Maxtor Corporation if
did not already own
\$391,000,000

KEMET Corporation
defense with respect to
an unsolicited offer
received from Vishay
Intertechnology, Inc.

Merisel, Inc.
sold its European and
Latin American businesses
to CHS Electronics, Inc.
\$154,000,000

Selection Corporation
acquired Force
Computers Inc.
\$205,000,000
acquired the custom
manufacturing services
business in Texas and
Malaysia of Texas
Instruments Incorporated
\$130,000,000

**Convertible
Subordinated Notes**
\$230,000,000
Senior Notes
\$150,000,000

Unisys Corporation
Convertible
Subordinated Notes
\$299,000,000

**USCS International,
Inc.**
Initial Public Offering
\$94,000,000

**Allibron
Communications
Company**
Senior Subordinated
Debentures
\$274,000,000

DEAL OF THE YEAR
Bell Atlantic Corporation
has agreed to merge
with NYNEX
Corporation
\$33,100,000,000

**Cablevision Systems
Corporation**
Redeemable Preferred
Stock
\$650,000,000

**Cox Communications,
Inc.**
STRYPES™
\$224,000,000

**Dow Jones &
Company, Inc.**
in partnership with
ITI Corporation
acquired WNYC-TV
\$207,000,000

**Hollinger
International Inc.**
through The Telegraph
plc sold a 25% stake
(4.99% of which is
subject to shareholder
approval) in John Fairfax
Holdings Ltd. to Briefly
Investments Ltd.
\$437,000,000

News Corporation
Exchange Trust
Exchangeable
Convertible TOPS™
\$1,000,000,000

**Occidente y Caribe
Celular, S.A.**
Senior Discount Notes
\$100,000,000

PTT Telecom BV
(subsidiary of Vision
Networks NV) acquired
a 17.28% stake in P.T.
Telekomunikasi Selular
Indonesia
\$304,000,000

Pacific Telesis Group
TOPS™
\$1,000,000,000

Mannesmann AG
as leader of a consortium
which also includes
AT&T Corporation,
Unisource and Deutsche
Bank acquired a 49.8%
stake in DBKom from
Deutsche Bahn AG
\$662,000,000

**Microcell
Telecommunications Inc.**
Senior Discount Notes
and Warrants
\$200,000,000

**Multicam
Participaciones S.A.**
American Depository
Shares
\$155,000,000
Senior Guaranteed Notes
\$185,000,000

NetS@ Services Ltd.
Senior Secured Notes
\$200,000,000

**News America
Holdings Incorporated**
Notes
\$1,000,000,000

**Newspaper
Journal
Company**
Initial Public Offering
\$123,000,000

Rogers Cable
Senior Secured Debt
\$843,000,000

Rogers Communication
Senior Notes
\$100,000,000

**The Providence Journal
Company**
Initial Public Offering
\$123,000,000

Rogers Cable
Senior Secured Debt
\$843,000,000

Rogers Communication
Senior Notes
\$100,000,000

**The E.W. Scripps
Company**
has effected by means
of a "Morris Trust"
structure the sale of its
cable business to
Comcast Corporation
\$1,575,000,000

DEAL OF THE YEAR
Sprint Spectrum L.P.
Senior Notes
\$750,000,000

Young Broadcasting Inc.
Senior Subordinated Notes
and Common Stock
\$364,000,000

**Tele-Communications,
Inc.**
has spun off TCI Satellite
Entertainment, Inc.
through a tax-free
distribution to its holders
of common stock
\$1,121,000,000

**Park Communications,
Inc.**
Senior Pay-In-Kind Notes
\$80,000,000

**Poland
Communications, Inc.**
Senior Notes
\$130,000,000

DEAL OF THE YEAR
Portugal Telecom, S.A.
sale of additional shares
by The Government of
Portugal
\$944,000,000

**The Providence Journal
Company**
Initial Public Offering
\$123,000,000

Rogers Cable
Senior Secured Debt
\$843,000,000

Tribune Company
has agreed to acquire
Renaissance
Communications
Corporation
\$1,113,000,000

**Turner Broadcasting
System, Inc.**
merged with
Time Warner Inc.
\$10,800,000,000

DEAL OF THE YEAR
**The Walt Disney
Company**
Senior Notes
\$2,600,000,000

Young Broadcasting Inc.
Senior Subordinated Notes
and Common Stock
\$364,000,000

Natural Resources

International Paper
Senior Debt
\$175,000,000

**Kaiser Aluminum &
Chemical Co.**
Senior Notes
\$226,000,000

Places Dome Inc.
COPES™
\$299,000,000

**Plum Creek Timber
Company, L.P.**
acquired the mid-south
forests and solid-
wood conversion facilities
of Riverwood
International Corporation
\$540,000,000

Limited Partnership
Interests
\$153,000,000

QUNO Corporation
was acquired by
Donehue Inc.
\$51,300,000,000

**Western Waste
Industries**
merged with USA Waste
Services, Inc.
\$700,000,000

**Tele-Communications,
International, Inc.**
Convertible Bonds
\$345,000,000

DEAL OF THE YEAR
Telefonica Del Peru
American Depository
Shares
\$918,000,000

**Teletel Communications
Group Inc.**
Initial Public Offering
\$432,000,000

Tribune Company
has agreed to acquire
Renaissance
Communications
Corporation
\$1,113,000,000

**Turner Broadcasting
System, Inc.**
merged with
Time Warner Inc.
\$10,800,000,000

DEAL OF THE YEAR
**The Walt Disney
Company**
Senior Notes
\$2,600,000,000

Young Broadcasting Inc.
Senior Subordinated Notes
and Common Stock
\$364,000,000

Municipals

Allegheny Health, Education and Research Foundation
Tax-Exempt and Taxable Debt Recapitalization of Allegheny University Hospitals and Allegheny University of the Health Sciences
\$410,344,000
Baptist Health System, Inc.
Alabama
Tax-Exempt Acquisition and Refunding Bonds
\$79,265,000
California Housing Finance Agency
Home Mortgage Revenue Bonds
\$140,000,000
The City of New York
General Obligation Bonds, Tax-Exempt and Taxable
\$982,475,000
Contra Costa Transportation Authority
Sales Tax Revenue Bonds (Limited Tax Bonds)
\$185,425,000

Dade County
Educational Facilities
Authority
Revenue Refunding
Bonds (University of
Miami Issue)
\$71,445,000

Florida Ports Financin
Commission
Revenue Bonds
\$222,320,000

Hackensack University
Medical Center
A Taxable Off Balance
Sheet Master Lease
Financing
\$66,600,000

Hawaii Hurricane
Relief Fund
Syndicated Loan Facility
\$750,000,000

Inova Health System
Virginia
Tax-Exempt Health Care
Revenue Bonds
\$104,000,000

**Massachusetts Health
and Educational
Facilities Authority**
**Baystate Medical Center
Revenue Bonds**
\$78,545,000

**Presbyterian Healthcare
System**
Dallas, Texas
**Tax-Exempt Capital
Project and Refunding
Bonds**
\$110,250,000

**Puerto Rico Highway
and Transportation
Authority**
**Revenue and
Refunding Bonds**
\$1,075,275,000

**San Bernardino County,
California**
**Certificates of
Participation (Medical
Center Financing
Project)**
\$65,070,000

Shands Teaching Hospital and Clinics, Inc.
Florida
Tax-Exempt Acquisition and Project Funding Bonds
\$150,000,000

South Dakota Housing Development Authority
Homeownership Mortgage Bonds
\$120,645,000

State of Connecticut
General Obligation Bonds
\$159,055,000

State of Washington
Adjustable Rate General Obligation Bonds
\$100,000,000

Wisconsin Housing and Economic Development Authority
Home Ownership Revenue Bonds

City of Gdańsk Bonds PLN 99,300,000	DEAL OF THE YEAR City of Naples Notes \$195,000,000
Council of Europe Eurobonds \$500,000,000	
DEAL OF THE YEAR	
CYBER-VAL 07/94 Floating Rate Secur. Financing Fr40,000,010,000	
European Bank for Reconstruction and Development Euro Yen Bonds ¥5,000,000,000	
The Export-Import Bank of Japan Euro-Asian Bonds	

Government of Kazakhstan	sold an 85% stake in Shymkent oil refinery a consortium led by Vitol S.A.
	\$230,000,000
Guangdong International Trust & Investment Corporation	Yankee Bonds
	\$200,000,000
Hellenic Republic	Eurobonds
	DM1,000,000,000
BEST OF THE YEAR	
Latin American Development Bank	Global Bonds
	\$1,000,000,000
International Bank for Reconstruction & Development	Euro Yen Bonds

DEAL OF THE YEAR
People's Republic
of China
Yankee Notes and Bond
\$460,000,000

Petróleos del Perú S.A.
sold its 60% interest in
Refinería La Pampilla,
S.A. to a consortium
including Repsol S.A.
\$180,500,000
sold its Block 8/EX oil
and gas licensing contract
to a consortium led by
Pluspetrol Perú Corp.
\$142,200,000
sold its Block X oil and
gas licensing contract to
Pérez Companc S.A.
\$202,000,000

DEAL OF THE YEAR
Province of Ontario
Global Bonds
C\$1,250,000,000

Republíc of Argentina

Republic of Luxembourg
Domestic Bonds
Litas200,000,000

Republic of Moldova
Private Placement
\$30,000,000

Republic of South Africa
Yankee Bonds
\$297,000,000

State of Israel
Euro Medium Term Notes Programme
\$750,000,000
Eurobonds
\$200,000,000

Swedish Export Credit
Dual Currency
Samurai/EuroYen Bonds
¥28,000,000,000

Swedish Ministry of Finance
has agreed to sell its 34% stake in Stadshypotek AB to Svenska Handelsbanken AB

Energy & Global Power

Alberta Energy Company Ltd. acquired Conwest Exploration Company Limited \$800,000,000
Apache Corporation acquired The Phoenix Resource Companies, Inc. \$400,000,000
Arethusa (Off-Shore) Limited was acquired by Diamond Offshore Drilling, Inc. \$963,000,000
Atlantic Richfield Company acquired a minority stake in Russian state-owned LUKoil through the acquisition of convertible bonds Value not disclosed
Atmos Energy Corporation has agreed to merge with United Cities Gas Co. \$501,000,000
BJ Services Company acquired NOWSCO Well Service Ltd. \$581,300,000 Common Stock \$335,000,000 Senior Notes \$124,000,000
The Brooklyn Union Gas Company has agreed to merge with Long Island Lighting Company \$8,200,000,000

Commonwealth Edison Company has agreed to sell the Kincaid Generating Station and the State Line Generating Station to affiliates of Dominion Energy, Inc. and Southern Company, respectively \$250,000,000
Delmarva Power & Light Company has agreed to merge with Adantic Energy, Inc. \$2,200,000,000
Diamond Offshore Drilling, Inc. Common Stock \$394,000,000
Electrafin SA and Royale Belge SA (affiliates of Groupe Bruxelles Lambert SA) sold its 24.5% stake in Tractebel SA to Société Générale de Belgique \$1,600,000,000
Enron Corp. TOPS™ \$200,000,000
Flores & Rucks Inc. Common Stock and Notes \$310,000,000
GPU, Inc. in partnership with Cinergy Corp. acquired Midlands Electricity plc \$2,610,000,000
Kansai Electric Power Company, Incorporated Euro Bonds

DEAL OF THE YEAR
Kansas City Power & Light Company pending defense with respect to an unsolicited offer from Western Resources Inc. \$2,850,000,000
Marubeni Corporation acquired a 29.5% stake in Sithe Energies, Inc. \$267,000,000
Noble Drilling Corporation Notes and Common Stock \$409,000,000
NotAm Energy Corp. has agreed to be acquired by Houston Industries Incorporated \$3,750,700,000 Common Stock and Convertible TOPS SM \$286,000,000
DEAL OF THE YEAR
OMV Secondary Offering \$593,000,000
Pacific Enterprises has agreed to merge with Enova Corporation \$4,383,000,000
Pacific Gas Transmission Company has agreed to acquire Teco Pipeline Company \$380,000,000
PanEnergy Corp has agreed to merge with Duke Power Company

Southwest Gas Corporation sold PriMerit Bank, FSB to Norwest Corporation \$190,000,000
Tejas Gas Corporation acquired Transok, Inc. from Central and South West Corporation \$890,000,000
Tenneco Inc. sold its 50% interest in Kern River Gas Transmission to The Williams Companies, Inc. \$205,000,000
Tide West Oil Company has merged with HS Resources, Inc. \$202,000,000
Transportadora de Gas del Sur S.A. Notes \$150,000,000
Ultramar Corporation merged with Diamond Shamrock, Inc. \$2,000,000,000
United Meriden Corporation Common Stock \$306,000,000
Unocal Corporation sold its crude and natural gas assets in California to a subsidiary of Torch Energy Advisors Inc. \$516,000,000
WPL Holdings, Inc. has agreed to a three-way merger with IES Industries Inc. and Interstate Power Company to form Interstate Energy Corporation

BREAKTHROUGH DEAL
Bally Entertainment Corporation has merged with H.I. Hotels Corporation \$3,000,000,000
Beacon Properties Global Common Stock \$755,000,000
Bristol Hotel Company has agreed to acquire 61 Holiday Inn hotels from Bass PLC \$659,000,000
CarAmerica Realty Corp. Common Stock \$164,000,000 sold a strategic equity investment to Security Capital Holdings S.A. \$250,000,000
Casino America Incorporated Senior Secured Notes \$315,000,000
CB Commercial Real Estate Services Group, Inc. Initial Public Offering \$87,000,000
Chateau Properties, Inc. has agreed to merge with ROC Communities, Inc. \$1,060,000,000

Crescent Real Estate Common Stock \$464,000,000
Crocker Realty Trust, Inc. was acquired by Highwoods Properties, Inc. \$546,000,000
Equity Residential Properties Debt and Equity \$446,000,000
Essex Property Trust, Inc. Common Stock \$135,000,000
Franchise Finance Corp. of America Franchise Loan Pass- Through Certificates \$179,000,000
General Electric Capital Corp. Matterhorn One \$826,000,000
HFS Incorporated acquired Coldwell Banker Corporation f The Fremont Group, I \$740,000,000 acquired Resort Condominiums International Inc. \$825,000,000

Interstate Hotels Corp
Initial Public Offering and Common Stock
Add-ons
\$376,000,000
Bridge Loan
\$195,000,000
Kaufman & Broad Home Corporation Senior Subordinated Notes
\$125,000,000
P.T. Kawasan Industri Jababeka Tbk Global Depository Receipts
\$70,000,000
Kranzco Realty Trust Commercial Mortgage Pass-Through Certificates
\$181,700,000
Ladbrooke Group plc has agreed to a worldwide hotel and gaming alliance with Hilton Hotels Corporation Value not disclosed
Marriott International Inc.
LYONSSM
\$287,000,000
New York Life Insurance Co. Real Estate Portfolio Sale
\$340,000,000
Paragon Group, Inc. has agreed to be acquired by C

DEAL OF THE YEAR
Simon Property Group, Inc. acquired DeBarolo Realty Corporation \$3,019,000,000
Solidere Global Depository Receipts
\$77,000,000
Starwood Lodging Trust Common Stock
\$451,000,000
Thistle Hotels Plc Initial Public Offering
\$563,000,000
Unibail has formed Crossroads Property Investors a Real Estate Partnership
Ffr1,608,000,000
United Dominion Realty Trust, Inc. acquired South West Property Trust Inc.
\$528,000,000
World Financial Properties Commercial Mortgage Loan Lease-Backed Certificate
\$1,307,000,000



Private Equity

Republic of Lithuania
Domestic Bonds
\$740,000,000
Republic of Moldova
Private Placement
\$30,000,000
Republic of South Africa
Yield-Plus Notes
\$20,000,000
State of Israel
Euro Medium Term
Notes Program
\$740,000,000
Swedish Export Credit
Debt Certificate
Swedish Export Bank
\$1,000,000,000
Swedish Ministry of Finance
Debt Certificate
Swedbank
\$1,000,000,000

DEAL OF THE YEAR
United Mexican States
Cerro Prieto
\$1,000,000,000

Best Friends Pet Care
Convertible Preferred Stock
\$23,000,000

Bruckman, Rosser,
Sherrill & Co., L.P.
Private Equity-Buyouts
\$325,000,000

Civitas Capital
Partners

Private Equity-U.K. and
European Buyouts
£300,000,000

Euroknights III
Private Equity-European
Equity

ECU 97,200,000

Fremont Partners, L.P.
Private Equity-Buyouts
\$602,000,000

Silicon Video
Corporation
Convertible Preferred Stock
\$55,000,000

Supermarkets Holding, L.P.
Private Equity-Argentine
Supermarket Buyouts

\$215,000,000
Bridge Loan
\$130,000,000
Syndicated Loans

\$100,000,000

Thayer Equity Investors III, L.P.

Private Equity-Buyouts
\$364,000,000

Zell/Merrill Lynch Real Estate Opportunity
Partners IV

Private Equity
\$593,000,000

America West Airlines
Common Stock
\$141,000,000

Aviall, Inc.
sold its engine and component repair operations to Greenwich Air Services, Inc.

\$250,000,000
sold its accessories repair business to Carris-Wright Flight Systems, Inc.

\$20,000,000
sold its Aerospace

Distribution operations to an investor group led by Odyssey Partners

Value not disclosed

BE Aerospace, Inc.
Senior Subordinated Notes

\$100,000,000

Canadian Pacific Limited

corporate restructuring which included separating its non-rail from rail businesses

Value not disclosed

Consolidated Freightways, Inc.
Common Stock

\$349,000,000

Norfolk Southern Corporation

has agreed to acquire Conair Inc.

\$12,800,000,000
Syndicated Loans

\$13,000,000,000

Quad-C, Inc.
sold a 40% stake in

TDS Logistics, Inc. to Harper Group, Inc.

Value not disclosed

Continental Airlines, Inc.

Common Stock
\$210,000,000

FlightSafety International, Inc.

was acquired by Berkshire Hathaway, Inc.

\$1,500,000,000

Iberia L.A.E.

sold a stake in Aerolinas Argentinas, Austral and Laelco to Andes Holding BV

\$345,200,000

KLM Royal Dutch Airlines

sold preferred stock in Northwest Airlines Inc. to Northwest Airlines Inc.

\$227,060,000

Mayne Nickless, Ltd.

Senior Notes

\$349,000,000

Norfolk Southern

Corporation

has agreed to acquire

Conair Inc.

\$12,800,000,000

Syndicated Loans

\$13,000,000,000

Ann Taylor Stores Corporation
Convertible TOPS™
\$101,000,000

Blue Square-Israel Ltd.

American Depository Shares

\$76,000,000

Brylane, L.P.

acquired certain assets of Chadwick's of Boston

from The TJX Companies, Inc.

\$300,000,000

Syndicated Loans

\$185,600,000

Guess, Inc.

Initial Public Offering

\$126,000,000

Mossimo, Inc.

Initial Public Offering

\$83,000,000

BREAKTHROUGH DEAL

Edcor Corporation

has agreed to be acquired by J.C. Penney Company, Inc.

\$3,300,000,000

Fingerhut Cos. Inc.

Asset Back Certificate

\$606,000,000

G. R. Herberger's, Inc.

has agreed to be acquired by Proffitt's, Inc.

\$185,000,000

Republic Industries, Inc.

acquired AutoNation Incorporated

\$646,000,000

Sears, Roebuck & Co.

Asset Back Certificate

\$523,000,000

acquired Orchard Supply Hardware Stores Corporation

\$414,000,000

The Stop & Shop Companies, Inc.

was acquired by Royal Ahold NV

\$2,950,000,000

Retail/Apparel

J.C. Penney Company, Inc.

acquired Fay's Inc.

\$343,000,000

The Pep Boys—Manny, Moe & Jack LYONS®

\$150,000,000

Quality Food Centers, Inc.

has agreed to acquire Hughes Markets, Inc. and Keith Udenberg, Inc.

\$450,000,000

Republic Industries, Inc.

acquired AutoNation Incorporated

\$646,000,000

Sears, Roebuck & Co.

Asset Back Certificate

\$523,000,000

acquired Orchard Supply

Hardware Stores Corporation

\$414,000,000

The Stop & Shop Companies, Inc.

was acquired by Royal Ahold NV

\$2,950,000,000

Consumer Products & Services/Food & Beverage

APAC TeleServices, Inc.
Common Stock
\$345,000,000

The Alberto-Culver Company
acquired St. Ives Laboratories, Inc.
\$115,000,000

BET Public Limited Company
was acquired by Rentokil Group PLC
\$3,200,000,000

Carson, Inc.
Initial Public Offering
\$67,000,000

Dover Downs Entertainment, Inc.
Initial Public Offering
\$49,000,000

Einstein/Noah Bagel Corp.
Common Stock
\$132,000,000

Foodbrands America, Inc.
Senior Subordinated Notes
\$120,000,000

The Gillette Company
acquired Dutucell International Inc.
\$7,748,000,000

Golden Bear Golf, Inc.
Initial Public Offering
\$40,000,000

Igloo Holdings Inc.
was acquired by Brunswick Corporation
\$154,000,000

James River Corporation of Virginia
sold its Flexible Packaging group to Printpack Inc.

\$372,000,000

Kimberly-Clark Corporation
licensed the Scottie facial tissue brand and sold a tissue mill in New York to a subsidiary of J.D. Irving, Limited

Value not disclosed

Kohlberg Kravis Roberts & Co.
acquired a majority stake in the parent company of Spalding & Evenflo Companies, Inc.

Value not disclosed

Syndicated Loans
\$650,000,000

Senior Subordinated Notes
\$200,000,000

Masco Corporation sold its Home Furnishings Group to a company formed by Citicorp Venture Capital Limited.

\$1,030,000,000

McDonald's Corporation
75% Subordinated Defeasible Interest Debentures
\$200,000,000

3% Swiss Franc Notes
SE250,000,000

Metro Pacific Capital Limited
Convertible Bonds
\$135,000,000

NuSkin Asia Pacific, Inc.
Initial Public Offering
\$241,000,000

Rayovac Corporation was acquired by The Thomas H. Lee Company

Value not disclosed

Swisher International Group, Inc.
Initial Public Offering
\$102,000,000

Syratech Corporation has agreed to be acquired by a company formed by The Thomas H. Lee Company

\$316,000,000

TelePizza, S.A. Initial Public Offering
\$87,000,000

US Foodservice Inc. has merged with Rykoff-Sexon, Inc.

\$620,000,000

Smarte Carte Corporation
was acquired by Haas Wheat & Partners Incorporated

\$113,500,000

Syndicated Loans
\$103,000,000

Snyder Communications, Inc.
Initial Public Offering
\$152,000,000

Specialty Foods Corporation sold BGH Holdings, Inc. and Burns & Ricker, Inc. to Bruckman, Rosser, Sherrill & Co., Inc.

Value not disclosed

Swisher International Group, Inc.
Initial Public Offering
\$102,000,000

Syratech Corporation has agreed to be acquired by a company formed by The Thomas H. Lee Company

\$316,000

COMPANIES AND FINANCE: ASIA-PACIFIC

Matsui move heralds Japan discount broking

By Gwen Robinson
in Tokyo

A decision by a small privately-owned Japanese securities company to cut some trading commissions heralds Japan's first wave of discount broking.

Matsui Securities said last Friday it planned to halve commissions on trades of over-the-counter shares and convertible bonds from March. It said yesterday it would bring forward its timetable to February 17, in response to investors' enthusiasm.

Matsui's decision follows similar moves by other securities compa-

nies, including Merrill Lynch and Paribas Capital Markets. It is expected to hasten the debate on financial deregulation among the government-appointed working groups in charge of planning the changes. One group is studying proposals for full liberalisation of stockbroking commissions.

Although fixed rates of commission apply to all trades up to Y1bn (\$8m) in value on Japan's stock exchanges, fees for trading in OTC stocks can be set freely under the rules of the Japan Securities Dealers Association.

Up to now brokers have charged uniform commissions for all stock

trades. Fees for a transaction involving Y2m worth of OTC shares, for example, are presently Y20,500. Matsui's move would bring the fee down to Y10,250.

The average monthly trading value of Japan's OTC market is about Y800bn. Foreign securities houses account for about 9 per cent of brokers' market share in Japan.

For a stock exchange transaction involving a blue-chip issue such as Sony, the commission to buy just 500 shares from a Japan-based securities company comes to just under Y40,000. In the US, the fee for an equivalent number of American Depository Receipts of the

same company could be as little as \$25, according to US securities companies in Tokyo.

Japan's 280 securities houses have traditionally relied on high commission fees for much of their profit.

Mr Masashi Suzuki, chairman of the securities dealers association, estimates that for smaller brokers, commissions account for as much as 90-100 per cent of earnings. For Japan's big four brokers, they make up about 46 per cent.

Full liberalisation of commissions was inevitable, Mr Suzuki said. But it should come in step with deregulation in other sectors

of the finance industry, so that brokers could develop alternative sources of income.

"Other sectors of the finance industry want to see commissions become fully negotiable. Only securities companies themselves didn't want it. But now, they realise they can't stop this trend, so they're looking for other areas to be opened up," he said.

One financial analyst said: "It's the middle sector that will feel the pressure, the guys with cost structures often associated with much larger companies, who lack the loyal client base that small firms have."

Bank of East Asia upbeat after 14.5% rise

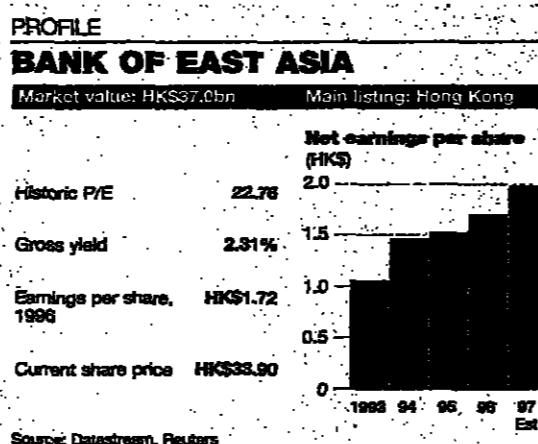
By Louise Lucas
in Hong Kong

The Bank of East Asia, Hong Kong's third-biggest listed bank, yesterday reported a 14.5 per cent rise in 1996 net earnings, from HK\$1.64bn in 1995 to HK\$1.88bn (US\$245m).

The results, which were at the upper end of market expectations, partly reflect the improved operating environment for banks in Hong Kong.

Buoyant property and stock markets stimulated demand for mortgages, while a rebound in the domestic economy stimulated activity in the retail and construction sectors.

One of the main engines for growth was an increased net interest margin, which rose from 2.45 per cent in the first nine months of 1995 to 2.6 per cent in the same period last year, suggesting



last year was a good one for Hong Kong's banking sector as a whole.

Mr David Li, chairman of Bank of East Asia, is also optimistic for the current year.

"Anticipated further improvement in the Hong

Kong economy should stimulate stronger credit demand, especially in retail property and construction financing.

Funding costs will be kept at a comfortable level... so the banking sector is likely to be active in China.

Mr Tony Larkin, banking analyst for Jardine Fleming Securities, calculates that

Bank of East Asia is pursuing non-mortgage consumer finance opportunities such as credit cards, which carry a higher margin, and is active in China.

China contributed 12 per cent of the bank's profits last year, in line with the previous year.

The contribution from

Hong Kong dropped slightly, from 84.7 per cent to 81.4 per cent.

The bank saw provisions rise 88 per cent last year, to HK\$257.38m. These were sustained chiefly in the first half, when a number of trade financing transactions soured. Mr Li said the bank still hoped to recover some of the money.

Total customer deposits grew 5.65 per cent in the first three quarters of last year, while the loan book increased 2.18 per cent over the same period.

Earnings per share advanced rose 12.4 per cent, from HK\$1.53 to HK\$1.72.

The directors are recom-

mending a final dividend of HK\$0.545, giving a total year

of HK\$0.545, giving a total year

of HK\$0.545, giving a total year

Spin-off plans lift Great Eagle

Shares in Great Eagle Holdings rose 4.5 per cent yesterday after the Hong Kong property and hotel

company unveiled plans to raise HK\$2.5bn (US\$323m) by

spinning off its commercial and office property arm. The

move, three years after similar plans were abandoned,

coincides with an upturn in property prices. Many

analysts are forecasting further rises, fuelled in part by

mainland banks and companies seeking to establish a

presence in the territory.

Following the spin-off, Great Eagle will focus on

residential and industrial properties, along with hotels,

serviced apartments and restaurants. The new vehicle,

Tai Shan Group, will concentrate on the ownership and

development of mostly prime office and commercial

properties. Tai Shan's portfolio will include landmark

office properties such as Citibank Plaza, one of the

company's main source of revenues, which houses

banking groups and the Hong Kong Monetary Authority,

the territory's de facto central bank.

Great Eagle will hold about 73 per cent of the

newly-listed Tai Shan shares, which are due to be priced

later this month. Peregrine Capital, part of the pan-Asian

investment bank which was involved in the earlier

abortive spin-off, has been appointed global co-ordinator

and sponsor to the issue.

Investors welcomed the plans, pushing Great Eagle's

share price up from HK\$31.40 to HK\$32.80. The group said

advantages of the spin-off included the creation of a

focused office and commercial property company which

could raise cash for its own business.

By raising cash, it also provides funding for a large-scale development in Mongkok, an area on the Kowloon peninsula which is one of the most densely populated parts of the world. The Mongkok project, which comes under Tai Shan, comprises office, commercial and community facilities, and a bus terminal. It is due to be completed in 2001.

Louise Lucas, Hong Kong

Yaohan to cut assets as part of restructuring

By Gwen Robinson

Yaohan, the Japanese retailing empire is to slash its gross assets by a third over the next two years, it announced yesterday.

The restructuring is intended to focus the company on its original mainstay supermarket business.

The Shanghai retailer had nearly Y180bn (\$1.48bn) in gross assets in March 1996, and estimated net assets of Y50bn, on an unconsolidated basis.

The moves are part of a broader restructuring of the Shanghai-based Holdings. The shake-up was launched last December to provide working capital, reduce debts and fund the expansion of the group's China operations.

Yaohan intends to reduce its interest-bearing debts from Y10.7bn to Y60bn in the next two years, on an unconsolidated basis.

The group's Japanese unit will liquidate holdings of securities and non-performing assets including property, as well as more than 10 of its 58 stores and offices in Japan, and some overseas assets.

The company will halve its 400 staff at its Tokyo headquarters and shift more emphasis back to the low-to-medium range supermarket sector, dealing with food

items and sundry goods.

On a consolidated basis,

the company plans to reduce its gross assets from Y245bn to Y170bn, and interest-bearing debts from Y18.4bn to Y90bn.

However, some proceeds

from the sell-off will be used

to redeem outstanding bonds

and raise operating capital through creditor banks.

Yaohan has more than 450 outlets in 15 countries

including the US, Singapore, and Hong Kong. In Japan, Yaohan directly operates about 53 stores and has some 35 franchised outlets.

China and surrounding regions have been the focus of the group's international strategy. It plans to establish 1,060 stores on the Chinese mainland by the end of 2005.

At the same time, the group has decided to expand in the domestic market. It plans to open 100 new supermarkets in Japan by 2000.

Speculation of impending financial crisis at Yaohan

drove down the company's share price last November. The shares continued to plunge after Yaohan announced a sweeping restructuring the following month, and in the month to December 20, when they closed at Y365, had they lost 50 per cent of their value.

The shares closed at Y411

yesterday, down 19 per cent

on the previous trading day.

China Eastern IPO priced

Shares in China Eastern Airline, the Shanghai-based carrier, were yesterday priced at HK\$1.38 for the Hong Kong stock (H-shares) offer and US\$18 for the American Depository Shares, each of which represents 100 H-shares.

The pricing is at the top end of the proposed

subscription range. China Eastern's offer price puts it on a prospective price/earnings multiple of 10.6 times on a fully diluted basis. Analysts and bankers had expected

China Eastern - which will become Hong Kong's 24th listed Chinese company, or H-share - to surge ahead of its recent predecessors because of increasing confidence on the Chinese economy.

The Hong Kong segment of the offering was 22 times subscribed, the sponsors said yesterday, while the bigger US and international issues received a "positive" response".

The combined offering involves 1.4bn H-shares, and the airline - China's most profitable - will raise HK\$1.6bn. Morgan Stanley Asia is global co-ordinator, while ABN Amro Rothschild is co-sponsoring the Hong Kong IPO.

Louise Lucas

Republic of Croatia

Floating Rate Amortising Bonds (the "Bonds")
Series A Due 31 July 2010

Notice is hereby given that the Rate of Interest has been fixed at 6.5% and that the interest payable on the relevant Interest Payment Date July 31, 1997 against Coupon No. 2 will be US\$32.68 in respect of US\$1,000 nominal of the Notes.

February 4, 1997 London
by Citibank, N.A. Corporate Agency and Trust, Agent Bank

Republic of Croatia

Floating Rate Amortising Bonds (the "Bonds")
Series B Due 31 July 2006

Notice is hereby given that the Rate of Interest has been fixed at 6.5% and that the interest payable on the relevant Interest Payment Date July 31, 1997 against Coupon No. 2 will be US\$31.50 in respect of US\$1,000 nominal of the Notes.

February 4, 1997 London
by Citibank, N.A. Corporate Agency and Trust, Agent Bank

CAISSE FRANCAISE DE DEVELOPPEMENT

US\$100,000,000 FLOATING RATE NOTES DUE 2003

Notice is hereby given that the Rate of Interest for the period February 4, 1997 to August 4, 1997 has been fixed at 5.4375% and that the interest payable on the relevant Interest Payment Date August 4, 1997, against Coupon No. 2 will be US\$136.49 and in respect of US\$100,000 nominal of the Notes will be US\$52,733.85.

February 4, 1997 London
by Citibank, N.A. Corporate Agency and Trust, Agent Bank

Landes-Kreditbank Baden-Württemberg

Landeskreditbank Baden-Württemberg

US\$200,000,000 Subordinated Floating rate notes due 2003

Notice is hereby given that the notes will bear interest at

5.4375% per annum

Class A 2.3125% per annum

Class A 3.625% per annum

Class B 7.3125% per annum

Interest payable on

4 August 1997 until amount to

US\$27.34 per US\$1,000 note

and US\$27.34 per US\$10,000 note and US\$273.40 per

US\$100,000 note

Contact:

Tony Finden-Crofts

COMPANIES AND FINANCE: UK

Firm becomes first of the 'Big Six' accountants to publish externally audited accounts **KPMG's fee income rises 6% to £624m**

By Jim Kelly,
Accountancy Correspondent

KPMG yesterday became the first 'Big Six' accountancy firm to publish externally audited accounts – exposing the once private world of the partnership to further outside scrutiny.

"We believe that public and political opinion is moving towards full disclosure by professional firms and we are right to provide this information," said Mr Colin Sharman, senior partner.

The firm, which became the first to publish results last year, announced fee income up 6 per cent to £624m (£10bn) and average profits per partner – the total paid to each of the firm's 561 partners – up 12 per cent to £206,000.

Grant Thornton, a compet-

itor and leading mid-tier firm which believes it has won a foothold in an expanding market, was paid a fee of £222,000 to audit the firm and gave KPMG an unqualified clear bill of health.

Both KPMG and Grant Thornton said they would now press for a new statement of practice, backed by the Accounting Standards Board, to cover non-corporate accounts and introduce standard rules for firm publicly reporting.

Grant Thornton said that reporting on tax, pensions, and pay all presented problems for partnerships using the company format. They put a note on the problems in the accounts.

Partnerships are private businesses and do not need to publish financial results. Last year Ernst & Young fol-

lowed KPMG in publishing full results – internally audited. Some mid-tier firms also disclosed information but to a lesser extent.

Some firms are likely to resist external auditors because of the conflicts of interest involved. They also think partners – the firm's shareholders – have enough direct access to data.

But the number publishing is likely to increase sharply in the next few years as the government is offering to protect the personal assets of partners under a new law most likely in return for audited accounts.

Mr Sharman, whose own remuneration rose 4.1 per cent to £770,537, said external audit was part of the firm's commitment to be open with staff and clients.

KPMG was also partly



Colin Sharman: public and political opinion is moving towards full disclosure

LEX COMMENT

Dixons

Sir Stanley Kalms, chair-

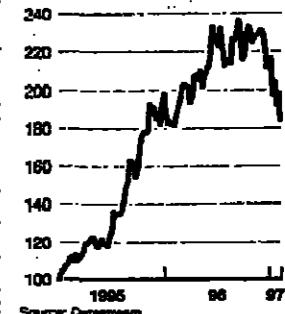
man of Dixons, should be reminded that actions speak louder than words. His sale of a third of his shares in the electrical retailer, only days after criticising a broker's sell advice, must have left investors feeling rather peeved. Yesterday they took their revenge, knocking 7 per cent off the share. That may look an over-reaction. Dixons is still the well-run company it was last week – and should show profits rising 40 per cent in the year to April. Thereafter, however, growth is set to slow. Part of that is due to more demanding comparatives, but there is also concern that rising interest rates and political change will hit consumer spending. Building society windfalls could help alleviate that. But anecdotal evidence from Cheltenham & Gloucester's experience shows only 25 per cent of recipients spend their money, mainly on holidays.

Meanwhile, demand for personal computers is decelerating. Some of the slack could be taken up by set-top boxes for digital television, but they will not impact until 1998. The rise in insurance premium tax, however, will shave £10m-£15m a year off profits from April. Some brokers, therefore, see both sales and profits growing at less than 5 per cent in 1998-99. Having more than doubled since 1995, Dixons shares are still trading at a 10 per cent premium to the market average. Having provided investors with a good excuse to take profits, Sir Stanley can hardly complain if they seize it.

Dixons

Share price relative

to the FTSE All-Share Index



Source: Quotefax

Dixons share price falls 7%

By Peggy Hollinger

The controversial sale of Linn Dixons shares by chairman Sir Stanley Kalms contributed to a 7 per cent fall in the company's shares yesterday.

The shares closed 38p lower at 479p, representing the largest percentage fall by any company in the FTSE 100 index of companies. The decline was in part because of Sir Stanley's disposal of shares, announced after the market had closed on Friday. However, it was also fuelled by a downgrade from Merrill Lynch, the broker, which is now advising clients to sell their shares on

the basis that sales growth is expected to slow in the medium term.

Sir Stanley's disposal caused angry comment when the market opened yesterday. It is understood that a large shareholder had already complained to the company's adviser, Cazenove, about Sir Stanley's conduct in criticising Mr Tony Cooper, an analyst with Greig Middleton. Mr Cooper last month advised clients to sell shares.

Other shareholders were more sanguine. If executives were to be remunerated with shares, "they should be able to capitalise on them," said one large investor.

Tomkins plans bolt-ons for Gates

By Tim Burt

Tomkins, the acquisitive conglomerate, is considering spending between £200m and £300m (\$486m) on bolt-on acquisitions to increase its presence in continental Europe and the emerging markets of Latin America and Asia.

Mr Greg Hutchings, executive chairman, said yesterday that such deals were likely to be focused on Gates Corporation, the US automo-

tive components group bought for £744m last year.

"There will be add-on acquisitions at Gates, which has a strong exposure to emerging markets such as Brazil and Korea," he added.

Mr Hutchings used the prospect of further acquisitions to dispel market speculation of a share buy-back. Tomkins ended the first half with net cash of £370m.

He claimed that such a move would stifle Tomkins' ability to consider large

takeovers, effectively preventing it from seeking the £1bn-£2bn deal that it would like to make within the next two years.

"If we handed £250m back to shareholders now, when we came to do the big deal we could end up with gearing of 20 per cent and risk serious earnings dilution by issuing large amounts of paper," said Mr Hutchings.

He was speaking ahead of an analysts' visit tomorrow to one of Gates' largest European manufacturing plants, in Belgium. Although some analysts believe a share repurchase would enhance earnings per share, Mr Hutchings deemed it a move reserved for "companies with no future".

"There is no question that in the short term it would be beneficial to investors to have a buy-back. But that could prevent us using the cash productively. We are against it while there are acquisitions around the cor-

ner," he said.

Among the brokers to advocate a buy-back, Salomon Brothers calculates that Tomkins could spend more than £230m on a repurchase and still have about £280m to spend on acquisitions.

One institutional investor said the group could also contemplate a special dividend, adding: "There is some enthusiasm in the market to return some value to shareholders, and we would go along with that."

BAA lifted as passenger levels riseBy Michael Skapinker,
Aerospace Correspondent

An increase in passenger numbers helped BAA, the airports group, to a 6.2 per cent rise for the first three quarters of its current year.

The number of passengers using its seven airports – London's Heathrow, Gatwick and Stansted, and Glasgow,

Edinburgh, Aberdeen and Southampton – rose 4.4 per cent. The airports handled 76.5m passengers.

The group yesterday announced that profits in the nine months to December 31 were £397m (£643m). The outcome would have been £5m higher, but were depressed by the programme of smoothing the differential

between peak and off-peak passenger charges.

The smoothing programme has the effect of transferring profits from the first half of the year to the second. BAA said the £5m reduction in the nine-month period should be recovered in the fourth quarter.

The smoothing of charges, which affects the three Lon-

don airports, is taking place over four years. BAA is in the second year of the programme, which followed consultation with airlines.

The group's revenue from airport and traffic charges gained 5.5 per cent to £385m. Net revenue from retailing rose 10.9 per cent to £31m.

Net retail income per passenger rose 6.2 per cent and property revenues swelled 8.4 per cent to £168m.

Operating profit added 9 per cent to £435m, and earnings per share were 28.9p, an increase of 5.5 per cent.

The Civil Aviation Authority told BAA last year to cut landing and take-off charges at Heathrow and Gatwick airports in real terms over the next five years.

Reward for Esprit backers

By Nicholas Denton

Apax Partners, Hancock Venture Partners and EM Warburg Pincus, the venture capital firms backing Esprit Telecom, are set to multiply the value of their investment five-fold when it floats.

The telecommunications operator, which is run from the UK, announced at the weekend that it was mounting an initial public offering on Nasdaq, the US stock market for hi-tech companies, and Easdaq, its European equivalent.

It is selling 29 per cent at a price of \$13-\$15 per American Depository Receipt, a proxy

for its shares. At that share price, the offering has a value of \$75m-\$81m and the company a market capitalisation of \$385m-\$420m.

It confirmed Lehman Brothers, the US investment bank, would be acting as lead manager of the US and international offerings, with Donaldson, Lufkin & Jenrette and HSBC Investment Bank acting as co-managers.

Esprit's financial backers, which invested a total \$23m between 1988 and 1996, will keep a stake of 55 per cent – worth up to \$55m – at the indicated offer price. The flotation will give them a paper profit of up to \$125m.

After the flotation, the 16 per cent of the company owned by Mr Michael Potter, chief executive of Esprit, and other managers will be worth \$45m. Esprit was only founded in 1991 and has not yet moved into profit.

Proceeds will be used partly to fund the expansion of Esprit's office network. Existing shareholders will only realise gains if demand allows an increase in the offering. The company was founded by Mr Walt Anderson, a US telecoms entrepreneur, and aims to be the MCI of Europe, emulating the challenger to AT&T in the US long-distance market.

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RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current payment (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
BAA	9 mths to Dec 31	1,064 (867)	397 (349)	26.9 (27.4)	-	-	-	11.25
Media Business	6 mths to Oct 31	63 (49)	0.365 (0.412)	0.16 (0.12)	Mar 7	0.03	-	0.09
Paper Infotech	6 mths to June 30	12.9 (13.8)	0.6 (0.315)	0.07 (0.06)	Mar 14	0.03	-	0.05
Investment Trusts								
European Assets	Yr to Dec 31	12.54 (0.54)	4.789 (4.589)	0.19 (0.18)	May 2	0.08	0.19	0.16
Plan Coverhouse	Yr to Dec 31	201.5 (201.5)	4.25 (4.37)	7.961 (7.9)	22	2.15	6.55	6.1
Mid Wales	6 mths to Dec 31	48.3 (40.74)	0.174 (0.14)	3.48 (2.78)	3	2.75	-	6.85
TR Smiler	6 mths to Nov 30 *	248.2 (222.3)	3.73 (5.51)	2.09 (2.03)	15	1.5	-	3.85
US Smiler	6 mths to Dec 31 *	216 (202.8)	0.058 (0.038)	0.13 (0.07)	-	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *With exceptional credit. **On increased capital. \$US currency, turnover, profits and earnings relate to Paper Systems Inc. *Dutch currency. *Already declared. #At June 30. *Companions restricted.

Northern Foods plc

(the "Company")

Notice to the holders of the

£91,280,000

6% per cent Convertible Subordinated Bonds 2008

of the Company

(the "Bondholders" and the "Bonds" respectively)

Notice is hereby given that The Law Debenture Trust Corporation, Ltd. (the "Trustee") and the Company have agreed to modify the Trust Deed dated 19th February 1993 constituting the Bonds on, and subject to, the terms of a First Supplemental Trust Deed dated 3rd February 1997 and the Company, the Trustee, The Law Debenture Trust Corporation, Ltd., and the Bondholders, Manhattan Bank and Chase Manhattan Bank as Paying and Conversion Agents and The Chase Manhattan Bank as Registrar in relation to the Bonds, have agreed to a Second Supplemental Agreement dated 3rd February 1997, in each case to allow Bonds in registered form to be converted into bearer form who wish to hold their Bonds in dematerialised form will first have to request exchange of their Bonds for Bonds in registered form in accordance with Condition 5(a) of the Bonds.

It is expected that permission for the Bonds in registered form to be transferred through the CREST system will be granted before 10th March 1997 which is the first date on which such Bonds will be eligible for such transfer.

Copies of the Trust Deed, Paying and Conversion Agency Agreement, First Supplemental Trust Deed and Supplemental Agreement are available at the offices of The Law Debenture Trust Corporation Plc, at Princes House, Gresham Street, London EC2V 7LY and at the specified offices of the Paying and Conversion Agents and Registrar set out on the reverse of the Bonds.

4th February 1997

Issued by: Northern Foods plc

Gulf Canada expected to increase bid

By Michael Lindemann

All oil analysts today expect Gulf Canada Resources, the Canadian oil group, to raise its 105p per share bid for Clyde Petroleum, the UK independent, to up to 125p per share.

Gulf and its advisers were meeting in London late yesterday to finalise a revised bid for Clyde following their first bid in December.

The company yesterday insisted that its 105p per share offer remained "full and fair" but analysts argued that an offer of between 115p and 125p would not seem unreasonable. A cash bid of 125p per share would value Clyde at £514m (£33.7m).

Clyde's share price edged upwards 2p yesterday to close at 117.5p.

Analysts also suggested that when Gulf made its final offer a competing bid could be forthcoming, possibly from North America.

Wassall takes 4% of TLG

By Tim Burt

Wassall, the industrial conglomerate, yesterday announced it had acquired 4.1 per cent of TLG in a move interpreted by some City analysts as a precursor to a possible bid for the lighting equipment group.

Shares in TLG, formerly part of Thorn EMI, jumped 13.4p to 118.4p after Wassall said it had bought 7.49m

INTERNATIONAL CAPITAL MARKETS

Italian prices fall on Emu eligibility fears

GOVERNMENT BONDS

By Edward Luce in London
and Lisa Bransten
in New York

Italian bonds dropped sharply yesterday on mounting worries about Italy's chances of joining the first round of European monetary union. US Treasury prices rose in the morning on weaker than expected economic data, helping push UK gilt prices up 2% during afternoon trading in London.

Negative comments by German economists and businessmen over the weekend on Italy's Emu prospects helped shift market sentiment against BTMs. Ten-year Italian BTM March futures on Liffe fell 1.44 to close at 129.24. Italian spreads widened by seven basis points over German equivalent bonds to 164 points.

"Italy looks the most exposed European bond market in the firing line this

week, especially if Germany fails to give a convincing thumbs up to Italy's early Emu aspirations at the Italian-German summit in Bonn on Friday," said Mr David Brown, chief economist at Bear Stearns in London. "We would not rule out the 10-year BTM bond spread finishing the week up at 175 basis points."

Traders said Spanish bonds were only mildly affected by yesterday's move against Italian bonds, reflecting the growing consensus that Spain and Portugal's economic fundamentals are healthier than Italy's. Bonos closed unchanged at 114 in Madrid. But 10-year spreads over German bonds widened to 106 basis points.

"From an economic point of view, Spain and Portugal could deserve to qualify while Italy probably won't," said Mr Cesar Williams, head of fixed income at Rothschild's Asset Management in London. "Whether it would

be politically acceptable for this to happen is another matter."

UK gilts seemed to benefit from Italy's drop and the buoyancy in US Treasuries. The appreciation of sterling against the D-Mark and the US dollar also increased optimism that Mr Kenneth Clarke, the chancellor, would not raise UK interest rates at his meeting on Wednesday with Mr Eddie George, the governor of the Bank of England.

Traders said technical factors, including heavy Japanese buying overnight and an excess of demand over supply in early trading, also supported gilt prices.

The release of a purchasing managers' survey showing unspectacular manufacturing growth in the UK also bolstered sentiment.

Long gilt rates % to close at 111.2 on Liffe. Spreads over bonds narrowed sharply to 173 basis points.

"Gilt" performance is

encouraging because no-one is expecting the gilt market to perform dramatically this side of the UK general election," said Ms Joanne Collins, senior market strategist at Nomura in London. "After the election, though, we predict gilts will rally quite strongly because they are very cheap in comparison to other European bonds."

But Mr Brian Marber, a technical analyst in London, said gilts had entered their ninth month of bull run, as measured against past performances rather than other markets. He said the preceding four bull runs in gilts had lasted eight, eight, nine and 37 months respectively.

"Each bull market has its own characteristics," said Mr Marber. "The fact that we are already in the ninth month does not necessarily make me a bear, but a 37-month run is very long by any other standards."

Gilt futures rose 0.13 to close at 101.84 in quiet

trading. Ten-year French bond futures rose 0.16 to close at 130.64 on Matif.

US Treasuries climbed in early trading as the first important indicator of January activity showed the economy to be slowing.

Near midday, the benchmark 30-year Treasury was stronger at 96.2 to yield 6.73 per cent while the two-year note had risen 1/16 to 99.96, yielding 6.675 per cent. The 30-year bond contract rose 1/16 to 111.16.

Bonds fell early in the morning after the Commerce Department reported personal income rose by 0.6 per cent in December, slightly stronger than expected.

But the market reversed course at mid-morning after the National Association of Purchasing Management said its index of business activity fell to 52 in January, against 53.8 in December. Economists had expected a more modest slowdown to around 53.5.

This statistic was considered especially important because it gave the first indication that the economy slowed in January from the strong pace seen in the fourth quarter of last year.

A figure above 50 is considered a sign of expansion in the manufacturing sector, while anything below that number generally indicates retraction. Many economists therefore saw yesterday's reading as a sign of moderate growth.

Bonds fell early in the morning after the Commerce Department reported personal income rose by 0.6 per cent in December, slightly stronger than expected.

The figure helped ease fears of an imminent rise in interest rates. The Federal Reserve's Open Market meeting is to begin a two-day meeting today. Few economists expect an interest rate increase this week, but many believe the Fed will raise rates in March or May.

CAPITAL MARKETS DIGEST

Russia to issue more eurobonds

Russia intends to issue two or three more eurobonds this year, broadening the pool of investors holding Russian assets and extending the maturity of its borrowings, the government said yesterday.

In an interview with the Interfax news agency, Mr Alexander Livshits, finance minister, said Russia would launch a D-Mark-denominated bond by the end of March. The issue would be around DM1bn and Deutsche Morgan Grenfell and Credit Suisse had been appointed to manage the issue. "We consider that Russia's new issue on the world financial market will be no less successful than our issue of eurobonds in November," he said.

Market sources suggest the Russian government could seek to raise \$1bn to \$5bn via eurobonds issues this year, helping to pave the way for corporate and municipal bond issues. Russia returned to the international capital markets last year for the first time since the Bolshevik revolution of 1917 with a \$1bn eurobond issue, which was enthusiastically received by international investors. The issue was priced at 345 basis points above US Treasuries.

However, Mr Livshits said the proceeds of the new issue would be used to pay off the federal government's debts to federal employees and pensioners, raising some concerns among market analysts. It is not normal financial practice for governments to use long-term borrowings for current expenditures.

"If you borrow in a foreign currency, it would be strange to use the proceeds to finance backlog of wages and pensions. But as we know, Russia likes breaking all the rules," one western economist said.

John Thornhill, Moscow

Mexico, Brazil set to launch D-Mark deals

INTERNATIONAL BONDS

By Samer Iskandar

Announcements of forthcoming eurobonds by emerging market borrowers overshadowed yesterday's quiet issuance.

Mexico said it would launch its DM1bn deal today, through Deutsche Morgan Grenfell and Dresdner Kleinwort Benson. The bonds will have a maturity of 12 years. Syndicate officials predicted they would offer a spread of 260 to 280 basis points over 10-year bund yields.

Brazil is also expected to tap the D-Mark sector in the next two weeks, with a

DM500m issue of 10-year paper. Credit Suisse First Boston will be lead manager.

Meanwhile, the World Bank added a new tranche to an existing bond in South African Rand, while VW Financial Services issued in Czech koruna. Both deals were aimed at retail investors attracted by the high double-digit coupons.

The largest issue yesterday was \$250m of 10-year floating-rate notes from ANZ Banking Group. The bonds pay 25 basis points over interbank interest rates for the first five years, after which they can be redeemed by the borrower. If this option is not exercised, the

coupon rises to 75 basis points over Libor for the remaining five years. Lead manager is SBC Warburg.

National Power is to refinance its A\$624m investment in Hazelwood Power, an Australian power generation company. The transaction will include A\$400m of 10-year bonds to be issued on the Australian domestic market, with BZW acting as lead manager.

A further A\$300m will be

raised through a five-year syndicated loan arranged by Union Bank of Switzerland.

Also, a A\$500m commercial paper programme will be set up through Commonwealth Bank of Australia.

In addition to the initial investment in Hazelwood, the refinancing will cover future capital requirements, National Power said.

Hazelwood was purchased in September last year for

A\$2.35bn by an international consortium in which National Power has a majority stake.

A margin of 17.5 basis points over Libor will be paid on the loan, in addition to a commitment fee of 8 basis points.

However, National Power would not comment yesterday on the savings that it expects to achieve through the refinancing.

Slovenian GDR doubles

The price of the first international equity issue out of Slovenia more than doubled after the launch, as orders by investors totalled more than 25 times the amount on offer.

The Global Depository Receipts issued by SKB Banca, Slovenia's second-largest bank in lieu of underlying domestic shares held in custody were priced at the top of the announced range of \$174-\$194, after the range had been increased from \$164-\$174. The issue, which gave international investors a 16 per cent stake in the bank, raised \$24.7m. It was arranged by Nomura, with ING Barings and Deutsche Morgan Grenfell acting as co-managers.

The GDRs, which are expected to be listed on the London Stock Exchange, reached around \$40 late last week, before retreating yesterday to some \$33-\$35. The bank's book value is around \$21 a share, compared with a price equivalent to \$25 for the domestic shares.

Traders said the surge was mainly caused by a rush by investors who had not obtained the full amount bid for.

"The GDRs are now back in more realistic territory, although they could fall a little bit more," one trader said. "But they will remain more expensive than the domestic shares, because international funds are willing to pay more than local investors." Samer Iskandar, London

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's Change	High	Low	Week	Month
Australia	6.75	11/06/98	96.3249	+0.040	72.8	74.9	7.98	
Austria	5.25	11/06/98	97.0202	-0.010	97.0	97.0	7.98	
Bulgaria	7.00	06/06/2000	97.4200	-0.040	97.4	97.4	6.66	
Canada	7.00	12/06/1998	103.7600	-0.050	103.7	103.7	6.44	
Denmark	8.00	03/06/1998	100.3800	+0.140	100.4	100.3	6.33	
France	6.50	10/06/1998	101.1668	-0.050	101.4	101.1	5.43	4.68
Germany	8.00	10/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
Spain	8.00	10/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
Ireland	8.00	08/06/1998	100.5000	+0.020	100.6	100.5	5.62	5.20
Italy	8.00	08/06/1998	100.5000	+0.020	100.6	100.5	5.62	5.20
UK	8.00	08/06/1998	100.5000	+0.020	100.6	100.5	5.62	5.20
US Treasury	8.00	10/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	11/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	12/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	13/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	14/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	15/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	16/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	17/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	18/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	19/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	20/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	21/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	22/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	23/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	24/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	25/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	26/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	27/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	28/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	29/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	30/06/1998	100.7900	+0.020	100.8	100.7	5.60	5.20
US Treasury	8.00	31/06/1998	100.7900	+0.020</				

Asia to issue eurobonds

CURRENCIES AND MONEY

Hashimoto reassures dollar bulls on G7

MARKETS REPORT

By Simon Kuper

The dollar jumped again yesterday, buoyed by German and Japanese comments suggesting that the Group of Seven industrialised nations would not try to block the currency's rise at a Berlin meeting on Saturday.

Mr Ryutaro Hashimoto, Japanese prime minister, said there was little chance of the meeting producing concerted action against the dollar.

But he also said that the yen's recent steep fall was cause for concern, and he called for stability in currency markets. Japan's ministry of finance also stopped short of calling for a dollar reversal, saying only that it would ask the G7 to prevent "excessive" currency moves.

Foreign exchange strategists said this could mean the meeting would agree to try to keep exchange rates sta-

ble at current levels.

Reinforcing that view, Mr Theo Waigel, German finance minister, said in Davos on Saturday that "we can live with the level [of the dollar] that has been established by financial markets". The US currency rose 0.5 per cent against the D-Mark last month.

It gained another 0.7 per cent against the D-Mark and Y0.5 against the yen yesterday to close in London at DM1.644 and Y121.6. Traders saw strong resistance at Y122.5 to the yen.

The dollar was held back by a stronger than expected fall in the National Association of Purchasing Managers' index for January. That appeared to raise the chances of the Federal Reserve leaving interest

■ Pinned to New York

Feb 3 - Latest - Prev. close

£ spot 1.6135 1.6202

Yen 1.6011 1.6011

DM 1.6093 1.6090

Fr 1.6003 1.6008

rates on hold at its two-day meeting starting today.

Sterling, by contrast, was boosted by a Purchasing Managers' Index for January that rose where a fall had been forecast. This implied that the strong pound has been hurting UK exporters less than was feared.

That, and buying by funds on the dip, helped the pound recover from its plunge last week. Sterling closed 2.4 per cent higher against the D-Mark at DM2.668 and 0.8 cents up against the dollar at \$1.611.

Both the lira and the peseta fell against the D-Mark yesterday, after a barrage of German comments suggested that Spain and Italy might fail to qualify for the first round of European monetary union, due to start in 1999. The lira fell 1.5 against the German currency to Y987.9. The peseta dropped to Pta25.01, falling through key psychological Pta85 level despite Bank of Spain attempts to

Dollar

Against the yen (Y per \$)



Source: Bloomberg

prop up the currency.

Mr George Soros, the financier, predicted yesterday that markets would react calmly if Italy and Spain were excluded from the first round, as long as it was clear that they would make the second round, expected in 2002.

A Eurostat report yesterday suggested that there were no European Union plans to censure countries

accused of fiddling their budgets to qualify for Eemu.

■ Japan and Germany are clearly not altogether happy about the rising dollar. The Bank of Japan reported yesterday that its foreign exchange reserves had fallen by Y731m in January – a small fall, but the first one in 36 months. It seemed to confirm market rumours in January that the bank had been selling some of its immense stockpile of dollars.

And the Bundesbank – which seldom intervenes in the markets – last week reported a DM700m fall in its foreign exchange reserves in the week to January 23. However, Mr Gerard Lyons, chief economist at DKB

International in London, said the small sums involved suggested that the banks had at most been trying to manage the dollar's rise, rather than to reverse it.

He expects no joint G7

action to emerge from the Berlin summit. If none does, that could boost the dollar.

■ The pound rallied yesterday even though further vestiges of UK rate rise expectations were removed.

Comments at the weekend by Mr Kenneth Clarke, the UK chancellor, hinted strongly that he would not raise UK rates after Wednesday's monetary meeting with Mr Eddie George, governor of the Bank of England.

The Wednesday meeting is generally regarded as Mr Clarke's last chance to raise rates before the general election, which must be held by May. Short sterling futures contracts yesterday continued last month's rise, on falling rate expectations.

WORLD INTEREST RATES

MONEY RATES

	Over night	One month	Three months	Six months	One year	Lenth	Dis. rate	Repo rate
Belgium	3d	3d	3d	3d	3d	3d	6.00	2.50
France	3d	3d	3d	3d	3d	3d	3.10	4.75
Germany	3d	3d	3d	3d	3d	3d	4.50	2.00
Ireland	5d	5d	5d	5d	5d	5d	6.25	
Italy	7d	7d	7d	7d	8d	8d	7.25	
Netherlands	2d	2d	2d	2d	3d	3d	3.00	3.30
Switzerland	1%	1%	1%	1%	1%	1%	1.00	
US	5d	5d	5d	5d	5d	5d	5.00	
Japan	5d	5d	5d	5d	5d	5d	0.50	

LIBOR FT London

Interbank	5d	5d	5d	5d	5d	5d	
US Dollar CDs	5.17	5.20	5.20	5.51			
ECU Linked CDs	4d	4d	4d	4d			
SDR Linked CDs	3d	3d	3d	3d			

3 LIBOR Interbank lending rates are offered rates for \$10m quoted to the market by four reference banks. They are working day. The banks are Bank of America, Bank of Tokyo and Deutsche Bank. National Westminster Bank. Mid rates are shown for the domestic Money Rates, US CDs, ECU & SDR Linked Deposits.

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COMMODITIES AND AGRICULTURE

Eurostat ruling gives fillip to gold

MARKETS REPORT

By Kenneth Gooding and Peter John

Gold received a temporary boost yesterday from Eurostat, the statistics arm of the European Union, which ruled that proceeds of gold sales by EU central banks could not be used to cut budget deficits in order to meet the entry criteria for European monetary union.

However, traders suggested the news would make little lasting impression, even though the fear of more central bank gold sales has weighed heavily on the price for some weeks.

The market has known for some time that cutting deficits is not the main issue. The real issue is the way central bank reserves are being re-examined with investment performance in mind," one said.

Gold was "fixed" at \$344.30

a troy ounce in the afternoon in London. \$1.30 below

Friday's afternoon fix. In

London trading it

reached \$346.30 an ounce.

Mr Alan Wright, chairman of Gold Fields of South Africa, told Reuter he expected gold to trade between \$345 and \$365 for some months and that at present there were signs of more central bank selling.

On the London Metal Exchange, speculative fund buying sent nickel prices to a 4% month peak in early trading. The price touched \$7,740 a tonne, an increase of 2 per cent from Friday's close, before profit-taking halted the rise in late trading nickel for delivery in three months was \$7,670, up \$55 from Friday's close.

While the technical squeeze in the copper market has eased slightly, the premium for metal for immediate delivery, compared with three-month copper, was still relatively big: \$1.25 a tonne compared with \$2.25 on Friday. Traders said this would continue to attract

copper to LME warehouses and some expected the exchange to report today that its copper stocks had risen by between 10,000 and 15,000 tonnes.

Oil futures traded lower as dealers began to anticipate lower demand before refineries close for maintenance.

February Brent Blend opened at \$23.25 in Tokyo and drifted down throughout the day to hit \$23 at midday in London. It recovered slightly during the afternoon but dealers were still only prepared to pay \$23.04. However, March recovered lost ground to trade at \$22.54, six cents down on the day.

The gentle slide continued

Friday's trend as strong technical support failed to offset fundamental concerns. Brent fell 65 cents on Friday as dealers liquidated long positions in petroleum products, particularly in US heating oil futures.

Milder than normal weather for the time of year in the US north-east, the world's single largest heating oil market, has also helped turn prices lower.

However, some dealers were yesterday hoping that data on US oil stocks from the American Petroleum Institute expected tonight might provide renewed direction to the market.

Eurostat details, Page 2

Coffee futures prices up sharply

By Alison Maitland

Arabica coffee futures rose sharply in New York yesterday on speculative buying, amid continued fears about tight supplies.

In London, robusta coffee futures were driven up by news that Indonesia, a leading producer, was to cut exports in the first half by 150,000 bags as part of a producer agreement to limit supplies and raise prices.

The New York March position was up 4.85 cents at \$14.425 a pound in morning trading, while London's March contract closed \$33 higher at \$1.555 a tonne.

Coffee futures prices have climbed for much of this year on the back of concerns about a smaller crop in Brazil and a dock strike in Colombia, two of the biggest coffee producers, at a time of growing world consumption.

Ms Judy Ganis, soft commodities analyst at Merrill Lynch in New York, said: "Central American supplies should be at their greatest but the coffee isn't building up because it's all being absorbed."

The market climbed in New York despite indications that long positions held by speculators were at their highest since 1994.

This was seen as bearish.

Ms Ganis said, because "all the funds are long of the market, so who is left to buy?"

• Douwe Egberts, the Dutch coffee roaster and wholesaler, said yesterday it

would raise the retail price of its coffee in response to the sharp rise in world prices. Reuter reports from Amsterdam.

The company said it would increase the price of a 250 gramme pack of coffee by 25 cents, making an average retail price of F13.55.

Zinc use ahead of production again in 1996

By Kenneth Gooding, Mining Correspondent

points out that the slight fall in western world consumption last year followed two years of above-trend growth: 5.6 per cent in 1994 and 6.6 per cent in 1995.

Mr Neil Buxton, research director, suggests that growth will pick up again to 2.7 per cent both this year and in 1998.

Mr Buxton is forecasting western production will rise by 2.5 per cent this year and 3.1 per cent in 1998. He warns there is some danger of smelter capacity shortages developing.

MBR says that zinc stocks by the end of this year will represent only about six weeks consumption, suggesting that "the fundamentals should support a steady advance in zinc prices in 1997".

Mr Buxton predicts that zinc prices will end 1997 at about \$1,425 a tonne and average \$1,285 a tonne for the year, 25 per cent above the 1996 average.

The price of zinc has risen strongly in the past week, partly because of investment fund buying, and yesterday touched a two-year peak of \$1,175 a tonne.

The study group says that world consumption of zinc moved up marginally from 7.528m tonnes to 7.535m tonnes. Mine output rose from 6.955m tonnes to 7.021m tonnes and refined production slipped slightly from 7.33m tonnes to 7.317m tonnes.

Zinc's main uses are in coatings to protect iron and steel from corrosion, alloys for casting and as an element in brasses. Other markets include the use of zinc sheet for roofing and cladding buildings and of zinc oxide in tyres.

In a market review today, Metal Bulletin Research

Helsinki offers hedge against pulp volatility

Today's launch of a trading exchange for wood pulp derivatives presents a long-sought opportunity for forestry groups to hedge against the pulp price volatility that has buffeted their profits in recent years.

Trading in pulp futures and options starts in Helsinki this morning - the first move in more than a decade to establish derivatives trading in pulp.

Previous attempts have been made to establish contracts for pulp, the biggest commodity without a futures market. But these failed partly because price swings had not been as exaggerated as in recent years.

The gap between price peaks and troughs has widened over the past 25 years, culminating in a roller-coaster ride in which prices rose from less than \$400 a tonne in 1983 to more than \$1,000 in 1985 and back down to around \$560 today. The violence of the latest swings appears finally to have convinced forestry executives of the merit of some kind of price insurance.

The Finnish Options and Futures Exchange is the first of three rival attempts to establish a pulp futures market. It will enjoy a head-start over OM Group, the Swedish derivatives exchange operator, which aims to launch trading in London in the second quarter of 1997. A third exchange is planned to open in Liverpool later this year.

Mr Anders Lindberg, president of the Helsinki exchange, said it aimed to reach a volume equivalent to 10 per cent of the \$25bn worth of pulp traded each year on the open market. An additional \$30bn of pulp is traded internally by companies, which is also subject to volatility and a potential source of future contracts.

Some 30 companies, including the Norcan bloc of Scandinavian and North American producers, and Asian groups, have registered interest in trading in Helsinki. Between 12 and 15 companies have traded to date on the exchange, while other participants can exchange contracts through the two banks which have signed up as marketmakers

- Merita Bank of Finland and Sweden's Skandinaviska Enskilda Banken.

Problems with regulatory approval for market-makers in Helsinki resulted in postponement of the planned trading start in September. Most of the snags have been ironed out, but brokers not registered as commodities traders are still barred.

The pulp and paper industry will be eagerly watching to see how the system progresses but the industry is renowned for conservatism and a cautious start is likely.

"We will give it a little time first to see how the exchange develops, but our basic attitude is positive," said Mr Ulf Gunnarsson of Sodra, the Swedish company which is Europe's largest producer of market pulp.

Others prefer to wait for the inception of OM's scheme, which will be based on physical delivery rather than cash settlement in Helsinki. "We believe that London, as an established commodities trading centre, is a better location than Helsinki," said Stora, the Swedish forestry group.

Trades in Helsinki will be based on long-fibre, or northern bleached softwood kraft (NSBK), the industry benchmark. However, the exchange is confident short-fibre from southern producers will be tradable due to the absence of a physical delivery requirement and a close correlation between the prices of the two grades.

Contracts will be based on a benchmark index price which has been calculated weekly since June from data supplied to the exchange by 50 companies for their trade in Europe. The bottom 10 per cent and top 10 per cent of prices are filtered out in order to maximise accuracy.

Should the exchange attain its targets, it envisages offering trades in certain paper grades within three years. Top of the agenda are newspaper, some line paper grades and recycled paper.

Greg McIvor

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COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINUM 99.7 PURITY (\$ per tonne)

Cash 3 mths 1610-11 1634-35

Previous 1597-08 1822-3

High/low 1608 1856/1627

AM Official 1604-05 1626-27

Kerb close 1626-27

Open Int. 246,823 Total daily turnover 59,617

Close 1604-05 59,617

High/low 1595-15 59,617

AM Official 1510-20 1535-20

Kerb close 1535-20

Open Int. 5,200 Total daily turnover 2,985

Close 1594-05 2,985

High/low 1593-05 2,985

AM Official 1592-05 2,985

Kerb close 2,985

Open Int. 36,800 Total daily turnover 8,008

Close 36,800 8,008

High/low 36,800 8,008

AM Official 36,800 8,008

Kerb close 8,008

Open Int. 49,964 Total daily turnover 21,541

Close 49,964 21,541

High/low 49,964 21,541

AM Official 49,964 21,541

Kerb close 21,541

Open Int. 15,612 Total daily turnover 4,113

Close 15,612 4,113

High/low 15,612 4,113

AM Official 15,612 4,113

Kerb close 4,113

Open Int. 22,982 Total daily turnover 2,985

Close 22,982 2,985

High/low 22,982 2,985

AM Official 22,982 2,985

Kerb close 2,985

Open Int. 22,982 Total daily turnover 2,985

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High/low 22,982 2,985

AM Official 22,982 2,985

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• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 673 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

FINANCIAL SERVICES

INSURANCE

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TELECOMS

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TECHNOLOGY

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ENERGY

AGRICULTURE

MINING

HAZARDOUS WASTE

PHARMACEUTICALS

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BEVERAGE

PHOTOGRAPHIC

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on 44-171 573 4228 for more details.

2

LONDON SHARE SERVICE

LONDON STOCK EXCHANGE

Interest rate nervousness unsettles shares

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

A wholly predictable element of caution crept into London's equity market yesterday, taking the leading indices off their recently attained peaks.

With monetary policy-making meetings scheduled in Washington (today), London (tomorrow) and Frankfurt (Thursday), dealers were not prepared to risk being caught either too long or too short of stock in the event of shifts in interest rates.

The day's UK economic news, provisional M0 money supply and the FTSE 100 index showed an 18.0 loss at 4,257.8, well above the day's low point, 4,252.8, which was recorded shortly after the UK

details and the Purchasing Managers' index for January, came in slightly higher than consensus forecasts but caused no real problems for the market.

Not did the bulk of the economic data from the US, which included personal income and consumption figures for December, construction spending for month and the National Association of Purchasing Management index for January.

It was not all gloom, however, with the SmallCap index rising up again and recording a new intra-day and closing high of 2,302.8, up 2.6.

The head trader at one of the big European banks said: "It was a quiet Monday at the start of a big week for stats and interest rate meetings; it's hardly sur-

prising that we lost ground." There was comfort for equities in the good showing by gilt. But some dealers, pointing to the latest strong performance by sterling against the dollar and the D-Mark, said currency pressures could begin to exert further pressure on equities, especially the big exporters such as the drug and oil stocks.

The growing speculation about the timing of the general election plus the controversy over a single European currency, which has been seen by some observers as possibly triggering an exodus of manufacturers, were other factors unsettling London stocks.

Sentiment in the US stock mar-

ket was affected by the impending Federal Open Market Committee meeting. The Dow Jones Industrial Average began the day under pressure, retreating almost 40 points.

Turnover in UK shares gave further cause for concern, with customer business last Friday coming out at £906.9m, the seventh consecutive session in which retail activity has fallen below the £1bn-mark.

Marketmakers attributed the extended lull in turnover to the proximity of the election and to fears that a shift in US interest rate policy could trigger a steep correction on Wall Street and global markets.

The day's UK economic news, provisional M0 money supply

Second liners were also in the

Dixons
in the
dockBy Joel Kibazo and
Peter John

There appeared to be no end to the pain for electrical retailer Dixons, as the market registered its disapproval of last Friday's sale of stock by the company's chairman.

Sir Stanley Kalms' sale of 1.1m shares was made just days after he attacked Mr Tony Cooper, analyst at Greig Middleton, for advising clients to sell the stock.

Yesterday it was the turn of some of the heavyweight brokers to advise clients to reduce holdings and market specialists indicated that some of the big institutional holders of the stock needed little persuading. Merrill Lynch, said to be among a long list of negative brokers, downgraded its recommendation from "hold" to "reduce".

The shares retreated, 38, or 7.4 per cent, to 479p, the worst performer in the FTSE 100 by a long way. Turnover soared to a hefty 100m.

Worries about the threat from the new digital television triumvirate - BSkyB, Carlton Communications and Granada - sent regional television stocks scuttling for cover.

The prospect of such a heavyweight grouping has already sent shudders through the cable compa-

nies, whose broadcast products may quickly become unattractive.

And, yesterday, the market took a harsh look at the prospects for local television as well as the attractiveness of remaining independents as takeover candidates.

Yorkshire-Tyne Tees Television slipped 80 to 1,102.4p with the tightly-traded stock also under pressure from a couple of agency crosses which went through the market at 1,110p a share.

The fading of bid possibility was particularly clear as Granada has 27 per cent of Yorkshire and has said it may make a full bid "at the right price".

Scottish, which slid 61% to 546p, was the most badly affected regional. And United News & Media, which owns the Meridian and Anglia stations following the merger with MAI, slipped 31% to 671p.

On the plus side, BSkyB was up 10 at 609p, Carlton 16% to 575p and Granada 20 higher at 917p. Analysts believe the move is particularly beneficial to BSkyB, and increases the perception that the satellite broadcaster will control the future of television in Europe. Meanwhile, Flextech, which makes programmes for the BBC, moved up to 715p.

In a sector looking as though it had eaten too much jelly at the party, Clyde Petroleum stood out against a rash of profit-taking in oil stocks.

The company is the subject of what many shareholders consider to be a niggardly bid from Gulf

Canada. Gulf has always maintained that its 105p-a-share offer fairly values the UK exploration and production group but very few shareholders agree. Today is the last day for Gulf to raise its offer and it is widely expected to do so.

The only question mark is the level. Some estimates are as low as 115p but the consensus starts at 120p a share and there is the chance that rivals might be prepared to pay another 15p on top of that. Consequently, Clyde shares rose 2 to 117.5p.

Elsewhere British-Borneo, which rose 20 per cent last week, slipped 27% to 1,337.5p.

Among smaller stocks, Dragon Oil saw turnover of 44m shares and remained flat at 2p, having jumped by a third late last week. The market acknowledged that the company is active in

up a bid for London Clubs. Shares in London Clubs hardened 2% to 379.4p, while those in Sainsbury firmed a ratio to 323.4p.

National Westminster shares peaked up 2 to 773.4p as ABN Amro Hoare Govett advised clients to switch into the stock from Barclays.

NatWest shares have been relatively ignored in the run-up the the bank sector's results season begins on February 14 with Lloyds TSB.

Both NatWest and Barclays

have big cash piles and are forecast to announce some form of return of value to shareholders of up to £500m.

However a number of brokers still like Barclays and the shares closed 4 higher at 1,168.4p.

Schroders, the merchant bank which has risen strongly over the past couple of weeks as old takeover talk has resurfaced, fell back 24 to 1,690p. Credit Lyonnais Laing took the stock off its buy list on the basis that it had achieved the broker's short-term target price.

National Electricity stood out with a rise of 7% to 704p after the government cleared the £1.2bn bid by Entergy for the regional electricity company.

Food manufacturing giant Unilever shed 16% to 1,379.4p

with analysts at Lehman Brothers reported to have downgraded current year profit expectations.

Among conglomerates, Tomkins was said to have benefited from a NatWest Securities recommendation.

The shares resisted the poor market trend to end the day 5 ahead at 283.5p.

Merrill Lynch was said to be negative on several of the leading retailing stocks. The list of those under pressure included Marks and Spencer, 5% lighter at 490p, and Kingfisher, down 14 at 662.4p.

Competition fears kept

FTSE 30 INDEX

Feb 3 Jan 31 Jon 30 Jan 29 Jan 28 Yr ago High Low

FTSE 30 2837.5 2847.1 2820.6 2847.4 2752.6 2885.2 2888.8

Ord. div. yield 4.07 4.06 4.08 4.07 3.79 4.22 3.76

P/E ratio net 17.51 17.55 17.46 17.49 17.05 17.55 15.80

P/E ratio cap 17.34 17.38 17.29 17.32 16.83 17.38 15.71

FTSE 30 area compilation high 2852.1 2904.9 low 484.2 5069.4 Date 1/7/93

FTSE 30 hourly changes

Open 5.00 10.00 11.00 12.00 13.00 14.00 15.00 16.00 High 2844.0 2837.7 2835.3 2838.7 2840.9 2840.5 2838.7 2835.0 Low 2844.0 2837.7 2835.3 2838.7 2840.9 2840.5 2838.7 2835.0

Feb 3 Jan 31 Jan 30 Jan 29 Jan 28 Yr ago High Low

FTSE AIM 119.55 119.55 112.32 110.82 110.07 105.02 114.04 95.57

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FTSE All Share 48.775 48.549 48.321 48.193 48.063 47.934 48.775 48.549

Total P/E 909.5 828.0 791.5 733.7 1649.5

Equity bangs (mid) 17.205 15.977 15.462 16.253 40.688

Shares traded (mid) 290.2 251.7 251.0 250.0 288.0 334.8

Excluding non-market and Cross business and overseas turnover.

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NEW YORK STOCK EXCHANGE PRICES

4 pm close February 3

NYSE PRICES

NASDAQ NATIONAL MARKET

4 pm close February 3

Continued from previous page

	Y	S	H	L	C	Chg	Per	Y	S	H	L	C	Chg	Per	Y	S	H	L	C	Chg	Per							
Stock	Div.	Ex.	100% High	Low	Close	Chg	Stock	Div.	Ex.	100% High	Low	Close	Chg	Stock	Div.	Ex.	100% High	Low	Close	Chg	Stock	Div.	Ex.	100% High	Low	Close	Chg	
Adm. Scienc	1.32	40	1100	575	575	-10	Adm. Scienc	1.17	17	27	2000	600	600	-10	Adm. Scienc	202	2355	202	21	21	-10	Adm. Scienc	15	34	17	16	16	-10
Aero. Corp	1.20	22	22	22	22	-10	Aero. Corp	215	18	18	18	18	18	-10	Aero. Corp	40	93	18	17	17	-10	Aero. Corp	91	91	18	18	18	-10
Aero. Ind	6	15	12	12	12	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	52	7672	44	42	42	-10	Aero. Ind	36105	42	42	42	42	-10
Aero. Ind	525	72	72	72	72	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	52	7672	44	42	42	-10	Aero. Ind	36105	42	42	42	42	-10
Aero. Ind	4.24	5	24	24	24	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	51	5631	38	34	34	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	4048	14	14	14	14	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	21	41	41	40	41	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	145	145	-10	Aero. Ind	215	18	18	18	18	18	-10	Aero. Ind	1062	67	67	67	67	-10	Aero. Ind	1062	67	67	67	67	-10
Aero. Ind	145	145	145	1																								

Dow lower in spite of bond gains

AMERICAS

US shares were mostly flat at midsession in spite of a third consecutive session of strong gains on the Treasury market, which brought the yield on the benchmark 30-year Treasury well below 6.8 per cent, writes Lisa Brancourt in New York.

At 1pm the Dow Jones Industrial Average was off 22.32 at 6,790.77 and the more broadly traded Standard & Poor's 500 lost 0.95 to 785.21. Meanwhile, technology stocks were mixed, with the Nasdaq composite gaining 0.73 at 1,380.58 and the Pacific Stock Exchange technology index, which includes both Nasdaq and NYSE shares, 0.3 per cent weaker. Volume on the New York Stock Exchange came to 22m shares.

There was little to move the market yesterday. Few Wall Street economists expected the Federal Reserve to raise interest rates this week at the two-day meeting of its Open Market Committee that begins today, and earnings reporting season was largely over.

Of the few companies reporting yesterday, ITT Hartford Group was unchanged at \$73.35 despite fourth-quarter earnings which were ahead of outside estimates. Pacificare Health climbed \$1 at \$76.45 after putting out first-quarter earnings of 98 cents per share, 2 cents ahead of expectations.

Among individual stories, Valero Energy lost \$2.50 or 7 per cent at \$31.40 on news

that it had agreed to sell its natural gas business to Pacific Gas & Electric for about \$725m. Shares of PG & E edged up \$1.40 at \$22.25.

Apple computer shares were unchanged at \$16.60 in spite of reports that the beleaguered computer maker planned to announce the sale of some businesses in an attempt to reduce expenses.

Shares in America Online, the largest online service company in the US, were higher after an analyst at CS First Boston upgraded its rating on the company. AOL, which has had trouble providing Internet access to its 8m members amid a surge in use, saw its share gain \$2.00 or 7 per cent to \$39.75.

New York Bagel Enterprises slid \$2.00 or 32 per cent to \$4.40 after announcing that it expected its fourth-quarter earnings to be well below analysts' expectations due in part to higher labour costs.

TORONTO moved forward on the back of good gains for utilities and a surge for BCE, the telecommunications giant. At noon the S&P composite index was up 25.72 at 215.30.

Half the 14 sector subgroups were showing gains with utilities, up 1.3 per cent, staging the strongest performance. BCE was up 1.60 higher at C\$6.95.

Northern Telecom eased 20 cents to C\$99.30 and Canadian Pacific came off 5 cents to C\$36.35. Royal Bank of Canada gained 45 cents to C\$50.25. Barrick Gold jumped 55 cents to C\$36.95.

Sao Paulo up 1.5%

SAO PAULO continued to move ahead on the government's long-planned reform programme. At midsession, the Bovespa index was up 1.22 or 1.5 per cent at 80,869, having surged by 2.3 per cent on Friday. Trading was described by brokers as active.

MEXICO CITY tracked Wall Street in light trading and, at midsession, the IPC index was off 25.12 at 3,622.05.

MARKETS IN PERSPECTIVE

	% change in local currency t	% change sterling t	% change in US \$ t		
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1995
Austria	-0.56	+2.36	+7.42	+20.02	+1.60
Belgium	-0.06	+8.34	+19.33	+27.20	+7.48
Denmark	+2.76	-8.01	+30.25	+40.44	+20.74
Finland	+1.48	+12.01	+53.33	+56.88	+35.15
France	+3.10	+9.46	+26.64	+37.38	+21.54
Germany	+1.01	+6.16	+21.04	+31.65	+11.46
Ireland	+2.97	+5.53	+25.01	+29.03	+24.07
Italy	+1.70	+9.13	+22.61	+23.97	+23.47
Netherlands	+0.26	+5.88	+33.28	+38.91	+17.35
Norway	+1.15	+7.33	+39.86	+40.80	+32.89
Spain	+0.21	+4.76	+44.47	+49.32	+26.57
Sweden	+1.06	+6.99	+45.76	+49.46	+36.93
Switzerland	+2.42	+8.90	+29.55	+28.46	+6.65
UK	+1.11	+4.17	+13.28	+15.42	+15.42
EUROPE	+1.14	+8.75	+22.37	+27.20	+19.14
Australia	+0.08	+1.19	+6.28	+9.36	+8.56
Hong Kong	-0.99	-1.14	+11.61	+27.04	+26.77
Japan	+1.70	-7.08	+14.48	+12.89	+28.30
Malaysia	+2.28	+18.98	+26.01	+24.72	+28.74
New Zealand	-0.47	+1.61	+10.94	+9.98	+11.17
Singapore	+0.36	+3.96	-3.70	+6.69	+3.85
Canada	+1.59	+3.19	+25.57	+32.69	+30.05
USA	+1.00	+3.14	+23.51	+27.42	+23.44
Mexico	-0.51	+6.47	+17.68	+29.96	+24.07
South Africa	-0.04	+0.92	-4.78	+5.83	-16.15
WORLD INDEX	+1.56	+3.13	+13.86	+17.92	+8.33
					+11.82

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FT/S&P ACTUARIES WORLD INDICES

Country	FRIDAY JANUARY 31 1997				THURSDAY JANUARY 30 1997				DOLLAR INDEX —			
	US	Day's Change %	Year's Change %	Local Index	Local % chg	US	Pound	Yen	DM	Yield	Local Index	Year % chg
Australia (76)	-212.96	-0.3	197.01	153.42	181.32	185.82	0.0	4.10	213.66	196.21	182.10	-18.44
Austria (24)	-183.05	0.4	140.47	140.47	155.85	155.77	0.3	1.84	182.27	167.38	149.26	-19.50
Belgium (26)	-232.04	-0.6	193.25	202.70	207.20	207.20	0.2	3.34	230.95	212.08	197.70	-18.71
Brunei (27)	-212.27	2.3	195.47	182.97	180.82	180.74	2.3	1.49	207.68	190.77	189.82	-23.47
Canada (114)	-212.27	-0.1	199.45	199.45	200.74	200.74	-0.1	1.49	212.27	177.01	177.01	-39.95
Denmark (62)	-359.91	1.8	326.98	276.19	306.55	306.55	1.8	1.44	353.53	324.65	272.05	-301.31
Finland (28)	-260.97	2.7	241.45	200.26	222.19	222.19	2.7	2.85	254.19	233.43	195.81	-216.65
France (82)	-218.06	0.6	201.74	174.34	185.65	185.65	0.5	2.58	216.84	193.13	166.87	-186.35
Germany (69)	-188.34	0.5	174.24	144.53	160.36	160.36	0.4	1.55	187.38	172.09	144.21	-159.72
Hong Kong (59)	-249.48	-0.4	169.88	177.11	184.85	184.85	-0.4	3.17	249.81	241.59	197.42	-44.31
Iceland (27)	-1.22	-0.2	129.00	129.00	129.00	129.00	-1.2	1.47	129.00	129.00	129.00	-37.19
India (16)	-372.27	1.0	302.72	251.10	276.60	276.67	1.4	3.17	323.91	297.45	249.26	-303.03
Italy (58)	-93.94	1.5	86.90	72.09	79.98	79.98	1.5	1.85	92.53	84.97	71.21	-77.37
Japan (480)	-114.57	2.4	106.09	88.00	97.63	97.63	2.1	0.88	111.95	101.81	85.91	-111.26
Malaysia (107)	-62.54	0.5	57.77	47.98	53.74	53.74	0.5	1.04	62.31	57.08	47.98	-50.55
Mexico (27)	-132.53	-0.6	122.77	101.76	112.93	112.93	-0.6	0.97	133.11	122.28	102.84	-114.55
Netherlands (27)	-191.41	-0.8	84.57	70.15	77.83	77.83	-0.5	3.96	92.17	84.84	70.93	-78.56
New Zealand (14)	-317.24	1.1	293.49	243.44	270.10	270.10	1.8	3.80	317.70	268.05	241.60	-267.37
Philippines (22)	-211.50	0.3	195.88	162.30	180.07	180.07	0.3	0.62	210.8	193.25	174.22	-214.48
Singapore (43)	-346.54	0.4	403.88	335.00	371.88	371.88	0.4	0.97	434.98	389.37	347.06	-282.08
South Africa (44)	-325.54	0.1	324.81	277.17	324.92	324.92	0.1	2.50	324.29	297.45	249.55	-333.57
Spain (46)	-122.91	1.2	199.11	174.91	201.91	201.91	1.2	2.47	201.89	187.50	177.01	-201.57
Sweden (50)	-247.51	1.7	326.82	328.08	365.01	365.01	1.7	1.94	240.56	323.21	221.30	-461.20
Switzerland (35)	-245.17	1.7	226.82	188.14	208.74	208.74	1.7	1.34	240.99	221.30	185.45	-205.39
Thailand (45)	-88.95	-8.6	81.95	67.98	75.42	75.42	-8.8	3.95	96.92	89.00	74.58	-82.50
United Kingdom (211)	-274.66	0.3	254.09	210.77	233.85	234.08	1.1	3.74	27			